

FINAL VERSION

***LOCAL DEVELOPMENT CASE STUDIES IN
LATIN AMERICA***

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EXECUTIVE SUMMARY

The study analyzes six local economic development initiatives of interest in Latin America (Córdoba in Argentina; the Greater ABC industrial belt of Sao Paulo and the Nordeste Bank in Brasil; Jalisco in Mexico; Antioquia in Colombia and Cajamarca in Peru) and also makes reference to a further ten relevant cases, examined in pre-existing studies (Rafaela and the Buenos Aires Business Development Institute in Argentina; Buena Vista in Bolivia; Ceará and Porto Alegre in Brazil; Rancagua in Chile; Sierra de Cuchumatanes in Guatemala; the Sula Valley in Honduras and Villa El Salvador in Peru).

The purpose of this exercise is to draw useful conclusions for designing Bank loan operations for improvement of competitiveness and promotion of business development on a territorial basis. Therefore, a series of recent operations either in progress or at the design stage are also analyzed, in order to evaluate how close they are to the local economic development formulations emerging in the region. These may therefore serve as an effective support for incentivating this type of process.

The cases studies correspond to sub-national units with different levels of development and social complexity, and differing degrees of formal decentralization, although in all of them public-private consensus processes of territorial actors for carrying out their development actions basically exist; there is formulation or strategic programming of local development processes; the processes have a certain degree of institutionalization; local development is orientated towards generation of employment and the improvement or creation of businesses; and their main aim is to foster the articulation of local productive systems.

The case analysis pays special attention to the examination of the creation and motivation of the processes, the delimitation of their sphere of action, the leadership in their development, the aims pursued, the approach and scope of the activities, the forms of articulating social consensus and the role played by the social and productive agents.

Various conclusions are drawn in which the study underlines the importance of defining or identifying the economic vocation of the different territories as a basis for the structuring actions of local development; the relevance of the human resource training programs in accordance with demands of the different local productive systems; the need for developing the *social capital* for the cooperation of the different local, public and private actors, which determines to a great extent the sustainability of the local development processes; the importance of leadership in creating social dynamics for local resource mobilization; the need for setting in motion a territorial offer of productive services in keeping with the requirements of the local business fabric; and the usefulness of urban planning and the marketing drive of the cities as a form of achieving contexts favorable to competitiveness and giving the local community a dynamic image.

Another **conclusion** of interest described here is the existence of a growing demand for the sub-national governments to take on greater responsibilities and prominence in the formulation of local economic development strategies, a demand which comes from both the local public authorities themselves and the representatives of business associations and civic forums.

The scope of the operations is diverse, but it can be seen that they are not a protectionist reaction to the national strategies of competitiveness promotion but instead aim to shape the territorial dimension of these strategies so that they are able to effectively free the development potential of the different regions of the country.

The case studies also forewarn of the risks which exist, as it is necessary, at least, to strengthen municipal governance by incorporating within it the new functions regarding the promotion of local economic development and the generation of employment; to facilitate the creation of joint institu-

tions which will provide stability for the consensus initiatives deployed locally in order for them to efficiently mediate in the strategic services market for development of the local business fabric; to ensure efficient coordination between the different territorial levels of the public administrations; and to incorporate a global vision to the production chains or sectoral business clusters as a whole.

As regards Bank loan operations, the review shows that even though the Bank has made loans of significant amounts of money to sub-national governments throughout its 40 years of activity, up to now the projects expressly aimed at local economic development have been very few. In fact, these are operations which can be designated as being of municipal decentralization, institutional strengthening or modernization and development of traditional municipal services, but which only contemplate local **economic** development obliquely or experimentally. In general they have been of limited success, whether this is as a result of their marginal nature or because they lacked the sufficient mechanisms for structuring a suitable interaction between the public and private sectors. The fact that the executing organizations are mostly national and therefore removed from the *local reality* does not contribute to the success of the local economic development component either.

However, it cannot be said that clear-cut distinctions exist between municipal programs and local economic development programs. In fact, most of the programs could easily accommodate this approach if they were to *widen* their objectives and eligibility requirements.

Finally, the study ends with a series of recommendations, among which features the need for designing specific programs for approaching local economic development requirements, as these are processes which require an integral design with a complex formulation of objectives. The diversity of demands, time requirements and situations in the different territorial areas of the region make it recommendable to adopt a flexible structure, organized by modules or stages, within these specific local economic development promotion programs. To this effect, an approximation by stages is proposed, which does not necessarily have to be successive or applicable to all situations but which should include the strengthening and modernization of local public governance; local strategic planning and the promotion of social consensus; the creation of joint institutions for the mediation of local development; and the promotion of systemic territorial competitiveness.

1 THE APOGEE OF LOCAL DEVELOPMENT

1.1 THE RECENT CONTEXT OF LOCAL DEVELOPMENT: A GROWING DEMAND FOR DECENTRALIZATION

In the sixties and seventies, the Latin American countries' economic development policy was guided by **interventionalist industrialization** aimed towards the substitution of imports on highly protected and scarcely competitive markets. The lack of a support policy for micro, small and medium-sized businesses and the scarce attention paid to the geographical diffusion of economic development gave rise to large regional disparities and a high geographical concentration of economic activity.

The **failure of this model** at the end of the seventies in the midst of a widespread economic crisis gave way to a period during which structural adjustments, economic liberalization and a growing openness to international flows took precedence. The concentration of resources and policies on financial reconstruction, both internal (fiscal) and external (balance of payments), gave rise to a complete turnaround in social promotion policies (education, housing and health), neglecting businesses and local communities, and to a financial adjustment which had a negative impact on the productive sector. The strategy of market reinforcement as a mechanism for resource allocation, the reductions in subsidies and state controls, and the privatization of public companies **diminished the role** and presence of the **State**. This economic policy was widely applied from the mid-eighties onwards, backed by the IMF through structural adjustment credits and by the World Bank and the IADB through structural adjustment programs.

The new policy did not reduce the geographical differences as regards development, in fact it had quite the opposite effect. With the reduction in the already precarious protection network which had existed in the various forms of state intervention, an important space was opened up in which productive and social agents could look to define a **new framework** of economic and social regulation in their **own local areas**, in order to create an environment which would be more favorable to growth and to an improvement in living conditions.

These initiatives were encouraged by the multilateral financial institutions from the second half of the eighties onwards. Various multilateral organizations demonstrated the negative impact the adjustment policies were having on the most vulnerable sectors of the population. Their proposals for "adjustment with a human face" (UNICEF) or for "human development" (UNDP) advocated direct action for transforming the living conditions of these sectors. As a result, in the early nineties, the IADB and the World Bank introduced social compensation funds for extreme poverty relief into their adjustment programs, and began to put the **accent on** the political conditions of poverty (lack of power and participation in public decision-making) and the **lack of focalization** of both social expenditure and investments for incentivating productivity.

Up to that time, traditional locally-based development policies had centered on promoting investment in infrastructures and basic services, and they were clearly insufficient. A greater **emphasis** therefore began to be placed on exploiting locally-generated resources and the importance of developing **social capital** in order to unblock them, taking this to be a set of factors such as the climate of social confidence, the degree of associationism, civic consciousness and cultural values in their widest sense. The complex interrelationships between macroeconomic stability, social integration and the dynamics of economic development were stressed as a result (Klikberg and Tomassini, 2000).

After the nineties, the State began a slow **recuperation of initiative** in many countries and began to face the need for modifying the traditional forms of policy-making. But the local authorities favored

a new system of relationships advocating **increasing levels of decentralization** - in short, dispersal of power - where a new role of controller/conciliator, rather than decision-maker, was established for the central departments. It was no longer a case of the State being a public mechanism with the region as a social actor. Verticalism and the patronage system were to give way to democratic concertation processes for setting the criteria for public resource allocation and development policy objectives.

1.2 A NEW PARADIGM FOR LOCAL ECONOMIC DEVELOPMENT

The territorial (or local) character of economic development had been ignored for a long time, although this situation shows a turnaround in the last few decades. For some, the crisis in the mass production model (Fordism) made a theoretical rediscovery of local-level diffuse or flexible production forms possible, although these forms of production have always existed throughout economic history (Sforzi, 1999).

Local development² should therefore not be identified as a “post-Fordist” model opposed to the functioning of big businesses. In actual fact, the local development approach stresses territorial values and values of identity, diversity and flexibility, which have existed in the past in production forms not solely based on large dimensions but also on the characteristics of a determined territory. The recuperation of this approach is fundamental with regard to how development is conceived.

For a long time economic development has been dominated by the concept of in-company scale economies, a view shared by the main lines of economic thought. As a result, the local production system was forgotten about or subordinated to the main unit of analysis, that is, the company. Another consequence of this analytical approach is that the vision of economic development is often reduced to the path of industrial development based on the large vertically-integrated company.

This reasoning was questioned in studies made in the late seventies by Becattini (1979) and other researchers on the “industrial districts” in Italy, recuperating the theories of Alfred Marshall (1890) who, with respect to the problem of the geographical concentration of industry, proposed using a territorially-based entity as a unit of study of the development process. From this perspective the central importance of the company is substituted by an organizational theory placing emphasis on the geographical milieu to which the companies belong, and on the external economies generated by local interdependences, which constitute an “industrial atmosphere” or heritage of knowledge and, as we would say today, a social and institutional capital, and these go together with the classic internal scale economies as an element of competitiveness.

The new contributions forming the basis of the approach to local development therefore have their origins in literature on the Italian industrial districts, although they also correspond to various approximations from different areas of study which today contribute to enriching the discussion on development from a more integrated, multidisciplinary point of view.

The idea of the “milieu innovateur” developed by the European Innovating Environment Research Group (GREMI, 1990) is another main reference point in the approach to local development, insisting as it does on the importance of these innovating territorial environments, and not only on the figure of the innovative entrepreneur. To a certain extent, the “cluster” approach is in the same line, Michael Porter (1991) being perhaps the most emblematic exponent of this theory.

Similarly, Piore and Sabel's reformist work (1990) on the second industrial breakdown and the importance of flexible production strategies has given rise to much literature which is reflected in the

² In the context of this study, the term *local development* is always used as a synonym of **economic** development, even though it may have other connotations in other fields, as commented in section 3.2.

various works published by the International Labor Organization, such as those by Pyke, Becattini and Sengenberger (1992), Sengenberger, Loveman and Piore (1992) and Pyke and Sengenberger (1993).

In the same way, we would mention the concept of “systemic competitiveness”, the main points of which were described by Esser, Hillebrand, Messner and Meyer-Stamer (1996), amongst others. Likewise, the abundant contribution of neo-institutionalist analysis in economy (North, 1993; Williamson, 1989 amongst others) is in line with this approach, as it stresses the importance of the institutional, social and legal contexts in which economic transaction and market functioning always take place. The current reflection on the importance to development of “social and cultural capital” is also amongst the most valuable contributions on this approach.

From a development policy standpoint, we would also include the contributions made by the OECD (LEED Program on Local Economic and Employment Development), the ILO (Local Employment Initiatives and, more recently, the LED Local Development Program), and the European Union initiatives concerning the promotion of small and medium-sized businesses, rural development, environmentally sustainable development and regional and local development policies as part of the social and territorial cohesion strategy. We would particularly mention the successful experience of the LEADER initiatives in building up associative networks of public and private local actors for local development in the rural environment.

Finally, not wishing to make the list more exhaustive, there are all the proposals concerning decentralization and State reform, through modernization of local and regional public governance, in order to incorporate within it the new roles of the sub-national administrations in the promotion of local economic development, fostering the active participation of the whole of civil society.

In all these works, the authors emphasize the importance of local areas in which external economies are generated for a group of specialized businesses, which achieve a certain extension of their activities in the surrounding environment by means of chaining between different intermediate supply and final product companies. In these territorial productive spaces an effect of spatial competitiveness is created due to the advantage of the flexible specialization and facilities for innovation of the small and medium-sized businesses, as opposed to the large companies based almost exclusively on scale economies.

However, the creation of this type of externalities requires certain previous conditions, such as the existence of a local supply of skilled labor, sufficient basic infrastructures, service enterprises and local authorities committed to supporting the spread of innovations. In such a case, the local area may then become an industrial district, that is, a decentralised or autonomous productive space with the capacity to compete on open markets (Krugman 1992).

It can therefore be seen that within this local development approach the stress is on various dimensions of the accumulation process, amongst which the most relevant perhaps is that the innovating activity in its most global dimension requires not only incorporation of the productive agents to the process, but also incorporation of institutional and social agents.

As a result, the following are of specific importance:

- a) The search for new forms of development, which takes place parallel to the need for finding responses to institutional management of the economy and of society. As a result the importance of local institutions, or the **political power** of this field, is stressed, as a necessary condition for proper management of local resources. The reinforcement of the local entities' negotiation capacity results in its direct articulation to the external agents who participate in the development actions - the international financing agencies or investing companies for example - and in a greater presence in global State decision-making, by means of the different localities' and re-

- gions' articulation into institutional networks and productive agents (associations of municipalities, business networks, etc.).
- b) In countries where state institutionality is in decline or is seen with mistrust by social groups traditionally excluded from development, the **participation** of the social groups and local economic agents in the definition of development strategies becomes a mechanism for reinforcing the local authorities' legitimacy.
 - c) The focal point of the intervention of the development policies is wider than with the previous strategies. Investment in human resource **training** and in the construction of the **institutionality** necessary to accompany and regulate the development process takes on great prominence, together with productive investment.
 - d) The local development objectives go beyond the sphere of economic growth (the number of factors) to focus on improvement in the quality of the productive factors and the quality of life of the population in general. As a result the supply of social services aimed at improving **quality of life** is considered an essential component of the process' success.
 - e) The **self-organization** of resources in the local environment is in many cases the essential condition for obtaining the services and infrastructures needed in the development process. The **relative autonomy** of the local development processes derives from a new spatial organization of the productive processes, with new links on a global scale substituting the traditional ones on a national level.
 - f) **Productivity** and the increase in **competitiveness**, defined on a local and microeconomic scale, become priority criteria for measuring the evolution of the process and the fulfillment of general local development objectives.

The new concept of local development can therefore be defined as follows: “*Local development is a complex process of consensus between the agents – sectors and forces – interacting within the limits of a determined geographical area with the purpose of bringing about a common project combining the generation of economic growth, equity, social and cultural change, ecological sustainability, gender perspective, quality and spatial and territorial balance with the aim of improving the quality of life and the welfare of each one of the families and citizens who live in that territory or locality*” (Enríquez, 1997).

The sub-national development strategy is therefore not a protectionist response to the national policy of competitiveness and economic development³ but instead its territorial dimension: it is not a complementary strategy, but the form of *spreading* competitiveness objectives throughout the different levels of governance and territory.

When there is no adequate territorial structural support for the national measures for promoting competitiveness, development takes place unequally, to the detriment of the most marginal cities, regions or territories (which have a lower level of infrastructure and institutional development). As a result, the effective application of most of the national competitiveness policies to businesses and citizens requires *dovetailing* to local peculiarities, with *fine adjustment* to enable the offsetting produced in periods of economic restructuring to be compensated by the emergence of new activities.

In this line, a recent World Bank project (1998) shows how a process of greater decentralization in decision-making and resource allocation improves the efficiency and transparency of the public institutions and strengthens the governments' and local communities' capacity for managing development programs.

³ Local development alone does not solve the problems of territorial unbalance, and so the task of compensation of territorial inequalities, normally performed by the central administration, will still exist.

The research program, which analyzed three main areas of decentralization (political, fiscal and administrative), showed that reinforcement of local capacities enables the democracy to be reinforced on a national scale, the policies' urban bias to be reversed, the poverty stemming from regional disparity to be reduced and attention to be devoted to the socioeconomic factors of this poverty. At the same time it allows development efforts to be redimensioned, fosters cooperation between governmental and non-governmental organizations, and improves management transparency and the responsibility of the institutions.

The program also showed that local-level decision-making does not contribute to reducing the poverty caused by disparities within the localities themselves, or to attaining greater tax equity, achieving macroeconomic balance or reducing public expenditure in general (Bebbington 1996, Faguet 1997, Manor 1997).

1.3 AGENDA FOR AN EVALUATION OF LOCAL DEVELOPMENT EXPERIENCES

In spite of all this, the implementation of local development strategies comes up against the lack of a strong local government tradition in Latin America. Up until the 1980s, practically none of the countries in the region administrated more than 10% of public expenditure from their municipalities (Boisier, 1986). As a result, the base regulatory framework is inadequate, and it is necessary to carry out major institutional reforms affecting the systems through which the different levels of government relate to each other (distribution of powers) and the allocation of revenue corresponding to sub-national units (fiscal decentralization), including their borrowing capacity⁴, with the consequent strengthening of their institutional capacity.

When local development processes are analyzed, the first component which stands out is the **consensus** between the agents, and a major part of local development strategy design consists of defining who these agents are exactly. Three main agents can be mentioned:

- The local institutions and institutional networks (national and international) to which the authority is dispersed;
- Civil society (the workforce to be deployed in the development process and the rest of the population, who benefit directly from this process) and
- Businesses, both local companies and those which may become established in the territory as a result of promotion of investments.

The form in which consensus will be broken down depends on the degree of institutional consolidation of each one of these agents. But in most countries, the design and application of new local development policies and strategies means the *creation* at the same time of a new local **institutionality**, capable of putting the project into practice (Albuquerque 1997, Desai and Imrie 1998). Adequate design is the key to its viability (R.J Biasizo 2000).

We are therefore now witnessing the appearance in many countries of a local institutionality which promotes and coordinates local development. This requires more professionalized, efficient and transparent governance, with a greater capacity for fund administration and project design, and greater social legitimacy. The characteristics of flexibility, polyvalence and competitiveness re-

⁴ Borrowing capacity varies greatly between countries. The municipalities with a greater autonomy are located in the larger countries with a federal regime (Argentina and Brazil) and in some centralized countries such as Colombia and Ecuador. At the other end of the scale are the countries which simply do not allow borrowing (Chile) or which place great restrictions on it (Bolivia, Costa Rica). IADB, *Economic and Social Progress in Latin America, 1997*. Cited by M. Magrassi, "Sub-national investment needs and financial market response", Sector Study, IADB, November 2000.

quired from the productive process now extend also to the functioning of local institutions (Piore, and Sabel 1990; Pyke, Becattini, and Sengenberger, 1992).

At the same time, the **lack of one single institutional formula** for local development means that its design still depends to a great extent on the capacity for concertation between the authorities and private sector staff, the degree of consensus reached concerning the strategy, the resources available, the experience accumulated and the structure of the social and productive fabric itself. In this way institutional architectures will be obtained, in some cases **generic**, orientated towards facilitating the creation of suitable conditions in the surrounding environment; and in other cases more **specialized**, orientated towards specific objectives of a strategic nature, for sectoral, technological and trade promotion, amongst other things.

A second crucial component in the evaluation of these processes derives from the growing consensus that the fundamental factor for development is the sustained growth of productivity in the territory, as this governs to a great extent the population's quality of life and the success of any local development strategy.

Regional or local competitiveness is therefore a key parameter in the evolution of the development process, and its level will be conditioned by the development of the business fabric. For this to take place, action orientated towards capacity and towards the *quality* of the productive fabric are necessary, that is, actions orientated towards the existence of business activities which are diversified enough to be able to make use of all the region's locally-generated resources, and productive processes which will allow sustained growth of productivity.

The local development actions must consider the *local production system* as a reality to be built upon, starting from a situation frequently characterized as fragmented and unarticulated. Businesses will differ in size, sectoral activity, productivity and competitiveness, ownership structure, etc. Therefore, their integration into a connected chain of value linked to larger-sized markets is a fundamental objective of the development process.

As a result, the actions should be aimed at both larger-sized businesses, able to reach national and international markets, and small-sized and micro-businesses, which provide a substantial part of local employment, and whose outward structuring both to other local companies and directly or indirectly to the global market is a condition of their own productive dynamism, going beyond the subsistence culture and the poor average aggregate value (Llisterri 2000, Vázquez Barquero 1999, OECD 1995).

Likewise, the articulation of the businesses with the other territorial agents provides these with a more positive atmosphere for the deployment of their competitive capacities (A. Enriquez 1997). Their dynamism, flexibility and adaptability will determine the success of the endogenous development process.

2 CHARACTERIZATION OF LOCAL DEVELOPMENT PROCESSES

2.1 PURPOSE OF THIS STUDY

Throughout the year 2000 the Bank has discussed and approved a new strategy of action regarding sub-national level development operations. Although the Bank has worked for a long time with sub-national governments (SNG), fundamentally for the financing of local infrastructures, what is now being worked towards is a global approximation to the local development **process**, and this is a much more complex approach.

Local development experiences are still in the expansion phase and no valid consensus has yet been established which would allow a local development strategy with any degree of general validity to

be identified (Albuquerque et al. 1997). The experiences are relatively recent, and there are no evaluations which would allow quantification of the results obtained⁵.

Within this reference framework six *example* cases⁶ in Latin America which adjust to the model of strategy described have been analyzed by field visits and interviews with the actors involved, with the aim of drawing useful conclusions for the design of programs for improving territorial competitiveness and for business development. These are shown in Table 1. A more complete description can be consulted in the Annex.

The examples differ greatly, as they correspond to sub-national units of different levels⁷, social complexity and economic development, in addition to being situated in countries with different levels of income and degrees of formal decentralization, but they all possess the following elements at least:

- Strategic formulation of the process (*vision*).
- Local development aimed at employment creation and business development.
- Public/private consensus for joint execution of actions.
- Articulation of the local production system
- A certain degree of institutionalization of the process

This overview is completed with references⁸ to ten more cases (Table 2) which are interesting for some of their complementary aspects and which taken as a group provide us with a more complete vision of the varied and complex ranges of experiences which have taken place over the length and breadth of the American continent.

None of these examples are an object in themselves⁹ of a IADB credit operation, although they may have benefited from the MIF's support to the financing of specific elements (e.g. in Antioquia and Greater ABC¹⁰ in the first group, or in Nueva Vizcaya and Rafaela in the second group).

⁵ And when there are evaluations, it is difficult to differentiate the causal relations from other concurrent factors.

⁶ To select these cases we have taken into account the opinion of the Bank services, and that of a number of Latin American experts in local development.

⁷ In practice we have reduced this to two types of administration or government: municipalities and groups of municipalities (whether or not they have their own legal entity), and sub-national governments (provinces, departments, regions or states, depending on the country).

⁸ The references made are based on the documentary evidence available.

⁹ For example, investments in the Integrated Development Poles of the Brazilian Northeast can benefit from credit lines of the *SME market expansion* program, approved by the Bank in 2000.

¹⁰ MIF financed the setting up of the Medellín Business Development Center and the Greater ABC Development Agency.

Table 1. List of local development cases studied

AREA	SIZE	DISTINCTIVE FEATURE
Region I:		
1. Argentina Córdoba	Large city (1.5 million inhabitants)	Strategic plan, participative planning, Development Agency, business incubator, training bonuses. Own identity (as opposed to the center). Since 1995.
2. Brazil Greater ABC (São Paulo)	Metropolitan conurbation of 7 medium-sized municipalities: 2.2 m. inhabitants in 1990	Highly industrialized area, in crisis. Active union participation. Most important car-producing area in Brazil, presence of multinationals. Significant institutional development. Since 1990.
3. Brazil Nordeste, Integrated Development Areas	Cluster of mainly agro-industrial areas, also including small and medium-sized cities	Role of the Nordeste Bank as a Development Agency, with study, revitalization and coordination functions. Integrated Development Areas. Spatial delimitation in accordance with the agro-industrial production chain. Social mobilization. Great emphasis on training previous to financing productive investment. Since 1997.
Region II		
4. Mexico, Jalisco	State with 5.3 m. inhabitants in 1990	Strong support from the "maquila" system (electronics in Guadalajara), combined with the development of traditional sectors and tourism outside the metropolitan area. Much success in employment in the last five years. Public-private consensus, with decentralization in favor of the municipalities and commencement of participative regional planning. Since 1995.
Region III		
5. Colombia Antioquia	Department with 5.2 m. inhabitants. In metropolitan area, 2.7 m.	Multiplicity of initiatives and institutions, leadership in the private business sector and strong collective identity. Less coalescence at operative level. Additional problem of drug-related violence. Since 1964, 1990.
6. Peru Cajamarca	Department with 1.4 million inhabitants; province 268,000; municipality 103,000	Regional participative project (1999) following in the wake of a successful <i>provincial</i> experience (1992-1998). Involves Administration, companies and NGOs (highly active). Production sectors: mining, dairy, timber and other agro-industries; and tourism. Recent growth due to gold mining (Yanacocha, large company).

Table 2. List of local development cases referred to

AREA	SIZE	DISTINCTIVE FEATURE
Region I:		
7. Argentina, IDEB (Buenos Aires)	Province of Buenos Aires	Company services center (1996). Decentralized and territorialized design (17 local autonomous centers).
8. Argentina Rafaela	Municipality with 80,000 inhabitants	Longstanding history and substantial institutional development. –Regional Development Foundation. Company Development Center. MIF <i>Pioneer</i> and pilot project, 1995.
9. Bolivia, Buena Vista (Chiquitania)	Rural municipality, 11,390 inhabitants	Development based on alternative tourism and exploitation of the Amoro National Park, 1995
10. Brazil, Ceará	State	<i>Young entrepreneurs</i> remodel the State (1986). Cooperation Pact, 1991. Informal public-private cooperation.
11. Brazil Porto Alegre (Rio Grande do Sul)	Municipality (1.4 million inhabitants). Important industrial center in the metropolitan region.	Participative budget and strong emphasis on local productive development, reference point as a local public governance model. Extensive institutionality: Municipal Agency for the Promotion of Productive Activities; Porto Alegre <i>Trade point</i> ; Portosol Municipal Credit Institute; Restinga Industrial Park. Technology Incubator. 1989.
12. Chile, Rancagua	Municipality, 216,742 inhabitants (1999)	Copper mining, metallurgical <i>cluster</i> . “ <i>Rancagua emprende</i> ” (“ <i>Rancagua starting out in business</i> ”). 1996. City marketing. Micro-company Incubator. Coordination of municipal programs. Regional Development Corporation (1999).
Region II:		
13. Guatemala, Sierra de Cuchumatanes	<i>Region</i> (group of 9 rural municipalities). 191,700 inhabitants	Internationally-funded Government Program 1995-2000. Self-sustainable rural development, training and services to producers.
14. Honduras, Soula Valley	<i>Region</i> with two million inhabitants (12 municipalities). San Pedro Sula, 417,000 inh. in 1997	Relatively dynamic and diversified, with serious economic and social problems. <i>Project</i> for a participative Strategic Plan (2000). Claiming right to prominence of municipalities in the country's decentralization framework – guarantee of democracy.
15. Mexico Nueva Vizcaya	<i>Region</i> grouping together 21 municipalities. The main municipality, Parral, 120,000 inhabitants.	Restructuring of an area in crisis (mining and metals), with local employers heavily involved. Private initiative together with the University.
Region III		
16. Peru, Villa El Salvador, Lima	Municipal district, 324,000 inhabitants	<i>Self-managed</i> creation of a resident-linked city and industrial park, 1971, 1986.

2.2 SCOPE AND DIMENSION OF EXPERIENCES

The first observation refers to the dimension and scope of the experiences. In all the spheres selected operations with varying degrees of success are registered. There is no *optimum* dimension which guarantees the success of the process. Or, particularly, it can be said that there is no minimum dimension, although logically the dimension conditions the spectrum of possibilities the local community can efficiently handle.

In fact, the experiences cover all possible scopes, with the logical exception of minimal-sized municipalities:

- a) Provinces or states (sub-national).

Case studies: Antioquia, Cajamarca and Jalisco. The experiences in Buenos Aires (the Buenos Aires Business Development Institute IDEB) and Ceará are described.

- b) Metropolitan cities (of over 1.5 million inhabitants) and municipalities in metropolitan Areas:

Case studies of Greater ABC and Córdoba. References to Porto Alegre and Villa El Salvador.

- c) Large municipalities (between 150,000 and 1.5 m. inhabitants)

References to Rancagua and the Sula Valley (San Pedro Sula and others).

- d) Medium-sized municipalities (between 15,000 and 150,000 inhabitants)

Case study of Brazil Nordeste (several, also small, rural municipalities); references to Nueva Vizcaya (several) and Rafaela.

- e) Small rural municipalities.

References to Buena Vista (a small municipality of 11,390 inhabitants) and Sierra de Cuchumatanes (several indigenous rural communities).

Illustration 1. Location of the six cases analyzed.



The sectoral specialization which is the starting point (rural, industrial, tourism) does not stand in the way of this process either, even though the *productive vocation* conditions the range of alternatives which may exist. In almost all the cases strategies are opted for based on the promotion of endogenous development (that is, using local resources), but without closing off the channels for attracting foreign investment. This is patent in the case of Jalisco, where together with development of the traditional productive sectors there is confidence in the electronics industry which functions on the basis of the *maquila* system¹¹.

However, the delimitation of the territorial field of action is more important than size. In practice, the scope coincides in most cases with that of the powers of the Public Administration responsible for the process and the program tends to *become identified* with the Administration. This is what has happened in four of the six cases studied and in seven of the ten reference cases.

There is however a second group of cases in which the scope is defined by the nature of the **problem or challenge** to be faced. In this case the programs tend to have their *own personality* and are more interesting a priori because:

¹¹ Even so, the smaller the area the more limited the options may be: Buena Vista's strategy is centered on exploiting the possibilities offered by a National Park in order to develop a quality tourism offer.

- (i) The exercise tends to be less arbitrary and more *real*. It is not simply the result of a *passing fashion*.
- (ii) The launch of the process requires a preliminary exercise of analysis and consensus: definition of the scope of action; identification of the relevant agents; consensus of agents.
- (iii) Its starting difficulties are greater for the same reason, as it does not start with a single Administration with powers for the whole territory; and for the same reason its execution and sustainability require a more elaborate institutional development.

The two cases which correspond to this last profile have a very different drive mechanism:

- The municipalities of the Greater ABC (the industrial belt of Sao Paulo) responded to the crisis in the automotive sector which affected them. The municipal authorities started the process and established the corresponding consensus for creating a unit including all of them.
- The Integrated Development Poles (IDP) of Brazil's Nordeste, however, are fomented by a public body (the Nordeste Bank) in the capacity of *development agent*, (initially) separate from the municipal authorities, and its spatial scope is defined by the agro-industrial affinity and vocation of the territory.

Both of them show great dynamism and vitality. Among the cases described¹², that of Nueva Vizcaya is closer to the profile of the Nordeste's IDP, with the added peculiarity that the initiative is both defined and managed by the **private** sector.

2.3 MOTIVATION OF THE PROCESSES

A formal local development process must respond to a **motivation** drawing together the efforts of the various agents implied. The local economic development experiences studied correspond to three specific types of motivation:

- In some cases it is a response to **crises which have arisen** in *relatively* developed municipalities or regions compared to the rest of the country and which require development management in order to find their own solutions as national policies do not seem to be confronting the problems. The processes in Antioquia (industrial decline), Córdoba and Greater ABC (crisis in the automotive sector), and to a lesser extent Jalisco (unemployment and concentration of economic activity in the metropolitan area of Guadalajara) are in this group.
- On other occasions it is a response to a situation of **extreme necessity**, of a struggle against underdevelopment and emigration, as in the cases of Cajamarca and the IDP's of Brazil's Nordeste. The first example is an action based around the *problem*; the second, around a *solution* (agro-industrial development).
- Finally, there are the cases where the process is not so much a specific response to a crisis situation but a way of **managing development** in a participative and **strategic** way (with foresight or in the long term). The case of Jalisco can also be included in this group, as it is characterized above all by the change in the *manner* of designing and implementing the *traditional* development plans of the Mexican administration.

¹² The other two are the Sierra de Cuchumatanes and the Sula Valley. The first is a national Government initiative, and the second a project in its initial phase, promoted by the municipality of San Pedro Sula and the Chamber of Commerce.

The other ten cases referred to also easily fit into this typology: Nueva Vizcaya, Rancagua, The Sula Valley, Buenos Aires and (in part) Ceará are in the "response to a crisis" group; the experiences in Buena Vista, Villa El Salvador and Sierra Cuchumatanes correspond to a situation of profound socioeconomic underdevelopment; and both Porto Alegre and, in particular, Rafaela would be examples for inclusion in the third group.

It is not applicable to make a *hierarchy* of motivations which could explain to varying degrees the eventual success of the process. Obviously, the response is usually greater and a keener degree of participation is achieved if the starting point (the perception of the problem or motive) is more alarming. Inversely, when the initial situation is highly consolidated and does not involve such a change from the previous situation (especially if the previous situation is reasonably positive), participation tends to be more of a formal nature (merely formal *support* is given), and less active. But it may also work the other way around, as in the last group there is greater institutional development to begin with, and the mechanisms of participation are therefore already developed and serve to convey the participation in a natural way, with less friction.

However in both the cases, the durability of the implication depends on positive results and changes being seen to take place.

2.4 INITIAL APPROACH AND LEADERSHIP

As one of the desirable components of local development processes is public-private consensus, it is logical that the processes should be of a more solid nature when this consensus exists from the initial proposal onwards, so that leadership is shared. In practice however, the leadership corresponds to either one sector or the other.

In almost all of the cases the formal initiative corresponds to an SNG¹³, with just a few exceptions where the first steps have been taken by a private entity. In these cases it is important to incorporate the public body (or bodies) as soon as possible, as otherwise there is a clear risk of reticence which may jeopardize the continuity of the process, or even block it completely.

Of the six cases studied, it can only be said of one that the initiative came from a private entity: The Fundación Pro-Antioquia, which formally headed it in its initial phase, being deep-rooted and able to rally public opinion. However, this exercise was an important but sterile exercise of strategic reflection with no practical continuity¹⁴. In other cases the private initiative joined the work process at the request of the Administration or became involved via actions performed by Civic Foundations or reflection groups providing input to the strategic reflection process (Antioquia, Jalisco).

In order to move from the reflection to the implementation stage, the involvement of the Public Administration must be obtained, either granting them the leadership of the process as a whole, or obtaining their participation in specific projects or initiatives.

Nueva Vizcaya and Rafaela are examples of situations where private initiative plays an important role in both the formulation and execution of the process. In fact the private nature of the initiative in Nueva Vizcaya allows the field of action to extend to municipalities located in two different States, which, had it been a public initiative, would have resulted exceedingly complicated. The same thing happened in Rafaela, where some municipalities of the States of Santa Fe (Department of Castellanos) and Córdoba (San Francisco) participated in some of the initiatives of the process.

¹³ This may however be motivated by the existence of active private or citizens' initiative groups.

¹⁴ Antioquia XXI exerted an influence on many other actions, but it did not become a formal Strategic Plan until many years later.

The local governments were involved *ex post* in Nueva Vizcaya, but the management instrument was the University, with close collaboration from the private business sector¹⁵. In Rafaela the municipality participated in the different bodies created and the public-private separation disappeared, with express backing from the State Government.

Another case in which the initiative did not come from the SNG but from the public sector is that of the Integrated Development Areas in the Nordeste region of Brazil where the leadership corresponded to a financial institution in its role of local development promoter: the Nordeste Bank. As in Nueva Vizcaya, it had the *virtue* of arousing the mistrust of the municipalities as it created a kind of *parallel power* (social mobilization, local development committees), but it managed to incorporate them to the process whilst preserving its leadership at the same time.

In **conclusion**, it may be said that local development action must be aimed at the achievement of results. Therefore, in all cases the process must be designed in such a manner as to *ensure* the continuity of the efforts in two ways:

- Linking strategic reflection and the construction of the long-term vision with the capacity for action, which normally requires active participation from the Public Administrations (*see box below*).
- Ensuring the continuity of the exercise beyond the initial effort of its specific promoters. A strong social and political participation going above and beyond electoral conflicts is therefore crucial (*see box below*). This preoccupation is expressly reflected in the initiative proposed in the Sula Valley.

From reflection to action

In 1985, the Fundación Pro-Antioquia made a call to build a prospective vision of the metropolitan area and the Department's future in the context of concern regarding the consequences of the changes in the international economy and market instability. The exercise "Visión Antioquia siglo XXI" lasted until 1992, and obtained participation from 2,000 leaders and 650 institutions.

During the second step, within a highly problematic social and economic context, the idea of "Antioquia Convergence and Development" occurred, to generate social mobilization aimed at achieving peaceful coexistence and new forms of economic development. Nine sub-regional agendas were drawn up integrating proposals and projects which had hitherto lacked an overall vision, with support from 42 institutions.

Nevertheless, the 1997 election programs did not include the proposals presented. As a result the promoting bodies (Pro-Antioquia, the Chamber of Commerce, the Council on Competitiveness, the newspaper El Colombiano, representatives of the Central Government in the Presidential Council for Antioquia) came to the conclusion that a Strategic Plan based on Antioquia XXI was needed. The new governor welcomed the idea and put it forward for approval in the Regional Assembly.

Consequently, the Plan was developed within the framework of government ordinance n° 12 of 1998, which provided legal and administrative support for the Plan, conceived as a participative and social project, based on the advances achieved in the previous processes.

¹⁵ This was feasible because the scope of the process was limited to the productive sector.

Political vulnerability of the processes

The *Concertation Steering Committees* created by the municipality of Cajamarca (Peru) in 1992 revolutionized public governance in the province. However, when their creator ceased to head the local government they began to lose impetus, although they are maintained in a few sectoral areas (e.g. tourism) and on a local (*district*) level in several municipalities. At the same time it served as a precedent for the elaboration of the *Cajamarca 2010 Master Plan for Regional Development*, the application of which was affected once again by the political transition process that was taking place in the country.

Endogenous development and supra-institutional consensus

The Nordeste Bank set up the “Nordeste Integrated Development Poles” (IDP) project in 1998, applying the strategy of forming alliances between governments, society and private initiative in order for local economic development to be viable. The forerunner of this strategy was the Technical Training in the Rural Environment Project developed together with the United Nations Program for Development from 1993 to 1999. The object of the IDP was to promote and encourage local economic development on a basis of cooperation between the different economic, social and institutional agents.

The starting point was the confirmation of the existence of an unexploited potential for **endogenous** development, and for this to be triggered the involvement of different agents and entities was required. The Bank provided a systematic work methodology, acting as a cohesive and inspiring force for the necessary efforts to be made, within a participative, democratic process, identifying territorial areas on a basis of the similarity of their characteristics and socioeconomic potential (natural, demographic, business, technological, infrastructure) and the integral vision of the sectoral value chain (normally agro-industrial). The structuring actions depended on irrigation for fruit and vegetable production, dry-farming of cereals and citrus fruit, the dairy areas and ecotourism.

Defining the scope of action

The Nueva Vizcaya region is a case of double interest as the initiative responded to the need for finding a solution to a crisis in the traditional productive structure (mining and forestry), but was undertaken in this case by the business sector, which meant that the response was put forward in keeping with the spatial dimension of the problem and not in accordance with administrative limits. The *region* comprises 21 municipalities belonging to two different States and the stress was placed not so much on the action of the public administrations as on training and innovation actions, with collaboration from the University.

2.5 THE FIRST STEP: PLANNING A STRATEGIC VISION

Normally, the first step in a local economic development (LED) intervention is to clearly define the strategic vision for the territory. This vision is usually constructed with participative criteria, involving the various social and business agents in the planning. The clearest way of doing this is by drawing up a document which, together with its variants, can be called a **Strategic Plan**, and in which the following are stipulated: (i) the desire to arrive at a determined future scenario and the characteristics of this scenario; (ii) the opportunities for and threats to the territorial community; (iii) the strong and weak points of this community as regards infrastructure, equipment, training and empowerment; and (iv) the strategies for avoiding the threats and making the opportunities materialize.

This is not always the starting point, of course, as can be seen from the six cases studied: *There was an initial plan* in Córdoba, the Nordeste (in the Integrated Development Areas, by definition), Antioquia and Cajamarca, but not in Jalisco (except for the *habitual* development program), while in Greater ABC the strategic plan was not formulated until 1998, while the process had begun in 1990. The same is true of the other cases referred to.

When the local development process is expressly mobilized as such, in a specific act responding to the local leader's initiative, the first actions usually lead to the formulation of a diagnosis of the

problems and a strategy for action¹⁶. These are normally situations which correspond to the two first types of motivation, as mentioned above (a crisis which has occurred or a serious structural problem).

In the *third type*, which corresponds to more mature experiences, in communities where more agents exist and where the consensus practice is more extended, the actions take place *naturally* and the strategic formulation may not expressly exist¹⁷ or may take place *later on* at periodic intervals throughout the process: this is the case of Greater ABC or Rafaela; in Ceará the informal process of social reflection and consensus have come together in a document drawn up following a process which has become more formal as the years have gone by; and Porto Alegre elaborated its strategic plan after years of participative budgets, more orientated towards immediate governance.

Even the case of Jalisco would seem to favor the convenience of formalizing the strategic vision: the *vision* of the State government is represented in its ordinary planning documents (1995), but the appearance in 2000 of two strategic visions promoted by two groups of citizens' institutions¹⁸ would seem to indicate that the private bodies feel the need for greater clarification or greater implication in the planning of the strategic vision.

2.6 SOCIAL CONSENSUS

The case studies show the important role played by social consensus in these processes, with both the private sector and the Public Administration being involved. Its articulation is more or less complex, through consultancy organizations, commissions, etc., although two situations are clearly distinguished:

- The cases in which only the agents *directly* linked to economic processes (production, training, financing, etc.) participate, through formal traditional representational bodies.
- The cases which opt for social participation in a much wider sense, including NGOs and associations of neighborhood groups and popular groups, for example.

There are examples of both *broad* and restricted participation in the cases studied. Cajamarca, Greater ABC and the Nordeste have opted for social representation in a wide sense, while Jalisco, Antioquia and Córdoba prefer participation to be more limited. The differences are explained in some cases by the greater range of objectives (the case of Cajamarca, for example), the value of social dynamism given to the process itself (Nordeste) or political stances favorable to a wider spectrum of social participation (Greater ABC).

It is interesting to observe that social consensus is even greater in the places where there are less economic resources and the local institutions have less capacity for governance¹⁹ (Cajamarca, Nordeste), where what is expected of the process is a change in the mechanisms of resource allocation, on the one hand, and on the other hand a reinforcement of local capacity for attracting re-

¹⁶ Five of the six study cases follow this pattern, Jalisco being the exception, where there is a before and after coming with the change in State administration, not so much with a formalized process.

¹⁷ The process is the sum total of a number of actions which do not respond to a formalized design or to previously determined guidelines, and so it may in fact be difficult to follow its path.

¹⁸ *Diagnóstico y prospectiva* and *Jalisco a futuro*.

¹⁹ In hardly any of the cases studied the local development process has been accompanied *per se* by new revenues or specific resources. The exception is Jalisco, with the fiscal decentralization process taken on (from the Federation to the States and municipalities, and from the States to the municipalities).

sources from the Central Administration, multilateral development organizations, etc. The following are therefore observed:

- A more efficient use of meager resources through cooperation between institutions in carrying out works and services (the Cajamarca experience).
- A better identification of projects and priorities. In the Industrial Development Area model the projects are managed by the institutions which were originally competent in this area.
- A greater capacity for attracting resources from national organizations or programs, in some cases with support from services or organizations created to this end: in Nueva Vizcaya the support provided to businesses by the Development Center which was created has enabled a greater share of funds from national competitiveness programs to be obtained.

On the other hand, the fact that agents who are important but not directly related are not incorporated to the process will eventually jeopardize the process: the non-incorporation of the regional or central authorities limited the possibilities in the first phase of action in Cajamarca, in the same way as the party bias in the municipality of Córdoba or the bias towards the IDEB in the province of Buenos Aires.

Another aspect which is interesting to point out in these cases is the role taken on by the **large businesses** and **unions**, especially active in the case of Greater ABC (in relation to the initial problem, the employment crisis in automotive sector). These play an active role in solution-finding. This is also the case in Cajamarca, where the main source of growth in employment is a large mining company²⁰. In these cases the large businesses are a particularly decisive element in the development of production chains within the municipality or region, and consensus with them therefore opens up genuinely valuable possibilities. This information shows that the scope of local development management should not be reduced to the context of SMEs: the large companies are part of the local business fabric and as such they are an element with a great capacity for influencing crucial aspects, such as training of the local workforce, qualifying of training centers, concerted development of quality and supply plans with local supplier companies, development of local infrastructures, etc.

Social consensus often takes the form of development of encounter organizations and the introduction of new work standards amongst the organizations involved. In the case of Jalisco an entire network of SME support organizations has been created (supporting them in quality, R+D, industrial design, promotion of exports, support to spatial decentralization). In the case of Cajamarca the consensus has clearly made its mark on the *modus operandi* of the various agents, from the numerous NGOs (which have set up consortium centers) to the companies themselves (which have formed clusters to develop common interest areas), including cooperation links between companies and training and research centers.

Institutional development is more evident where a supra-municipal sphere of action has been created, as in Greater ABC (see box below) or Rafaela (Regional Development Foundation, Business Development Center), although this raises the question of sustainability of the institutions created.

It can be observed that social participation and consensus by themselves generate one of the main benefits of local development processes, especially in the less advanced areas: the **change of attitude** in relation to problems and the active search for solutions. The outcome of this is that the transition is made from an initial situation, in which economic development is something claimed or required from other powers (basically the State), to another final situation where it is assumed as be-

²⁰ In Jalisco also the region's large businesses participate in the various committees and organizations.

ing a task for which they themselves are responsible, and in which the local community plays a very important role.

Social consensus in Cajamarca

During the first phase, the Municipality made cooperation agreements with all the social agents (NGOs, companies, the University, the churches, the State, social organizations, etc.) and a **Consensus Board** was finally created (in June 1993), centered around six **Thematic Steering Committees** for sharing the responsibilities of governance with the civil society. Until 1995 the Provincial Municipality was much involved in calling meetings and organizing its work, and the **social actors were more present** in the drawing-up and approval of the documents, which were almost always formulated by specialists from the participating institutions. When the Mayor was re-elected (1996-1998) a greater **«institutionalization» of the Board** took place, with guidelines for functioning being laid down which gave it stability without depending on the future political changes of the Provincial Municipality and the socialization of the commissions, with a majority of Board managers who were not Councilors. The culminating phase was the creation of the **Cajamarca Sustainable Development Plan**.

In 1999 the Inter-institutional and Multi-sectoral Council of Cajamarca was created, made up of representatives from the public sector, the Chamber of Commerce, the University, the Churches, NGOs and social organizations, to identify and plan projects for the sustainable and harmonious development of the region, and with the ultimate aim of combating poverty. This new process came together in the so-called **Cajamarca 2010 Master Plan for Regional Development**, expanded on the basis of *participative planning* methods, and which has followed three phases:

- Phase 1: Launch of the process. This began with a *workshop* for drawing up a first *Future Vision* of the Cajamarca region (November 1999), in which 400 people from the region participated. This was followed by a training workshop, aimed at professionals selected as facilitators, to supervise the participative workshops in the second phase, and various training and awareness-raising programs in the provinces.
- Phase 2: Formulation of the regional vision. The vision of the region up to the year 2010 was *constructed* on the basis of six multi-provincial workshops plus one specific workshop for young people. A new regional workshop then complemented and consolidated the resulting visions in one coherent regional vision. Subsequently, 18 work areas were defined and 18 steering committees formed to study them.
- Phase 3: Formulation of strategies and identification of dynamic projects: The work area discussion boards were set up with the purpose of elaborating a diagnosis, planning the anticipated results and defining the strategies required to make the strategic vision a medium-term reality. A final event entitled Discussion Board Forum served to consolidate what had been produced in each of the discussion boards and begin the elaboration of the final document, the **Cajamarca 2010 Master Plan for Regional Development**.

The *Framework Plan* has legal standing as it was approved by resolution of the regional Presidency on the 19th of May 2000. It establishes that all the sectoral and institutional directorates depending on the Cajamarca TCA “will have their orientating framework” in this Plan.

Consensus process in Greater ABC:

In this region the consensus process has given rise to the drawing-up of a Regional Strategic Plan which formulated the vision of the territory as a platform for advanced tertiary services, complementing an industrial structure which was not renounced. The achievements of an institutional nature which merit attention are the following:

- The Greater ABC inter-municipal consortium created in 1990 to carry out joint municipal planning work.
- The Citizens' forum created in 1994, with the presence of the different territorial actors (over 100 organizations) and which played a fundamental role in mobilization for the development and strengthening of social capital.
- The Greater ABC Regional Assembly, constituted in 1997 to combat the crisis, and which included regional actors and decision-makers important at both State and local civil society level, in order to reach agreements within a structure which was both horizontal (Prefectures, Municipal Assemblies, businessmen, workers and civil society institutions) and vertical (the different levels of municipal, State and federal government, and delegates from the different authorities).

The Regional Assembly has become the process's cornerstone. Its Deed of Constitution shows a high degree of consensus between the agents to promote strategic action for the region. Its members have opted for creating an atmosphere favorable to innovation and have adopted important agreements in their Regional Arrangements, including the creation of an Economic Development Agency (1998) which has elaborated the Regional Strategic Planning for Greater ABC and is responsible for putting its conclusions into practice.

Participation in the identification of local development opportunities

The “Beacons of Development” of Brazil’s Nordeste region came out of the experience gained in the functioning of the Development Agents and the creation of the Municipal Committees all over the region. The structuring work carried out by the Development Agents together with the productive agents and local actors in the different municipalities laid the foundations for establishing the “Beacons of Development”, an instrument which endeavors to collaborate in identifying the municipalities’ economic structure, creating an open space for discussion and finding solutions for strengthening local production chains, from production, infrastructure and marketing to entry into national and international markets. In this way, the Nordeste Bank shows an in-depth conviction for a better identification of the different local economic vocations, working jointly with community representatives, public institutions, business entities, co-operatives and producers’ associations, and non-governmental organizations. The “Beacon of Development” is therefore a space for discussion and finding solutions to the bottlenecks occurring in the municipal development process. All the local actors are brought together through this initiative, from the prefect to the small farmer, including businessmen, unions, community associations, the church and non-governmental organizations, in an endeavor to construct a joint action to benefit municipal development. The Beacon of Development is not simply a discussion forum but a program orientated towards the action of the local actors. It works in each municipality with the proper means for guaranteeing its efficiency, including participative planning, future vision and the strategic guidelines deriving from it, a commitments agenda, structuring of projects and actions, priorities for action and the political and institutional articulation of the different authorities involved.

Social participation is not however limited to taking part in formal encounters. In some cases (e.g. Cajamarca) the formative activity which takes place before and during the process, aimed at both institutional staff and social communities, is very relevant. The object of these prior training activities is the empowerment of people to take on new social roles in the development process making the participation in the encounter points more fruitful.

2.7 SCOPE OF LOCAL ECONOMIC DEVELOPMENT EXPERIENCES.

The ultimate aim of the strategic plans is normally expressed in simple terms, for example creation of employment, revenue and wealth, the improvement of the population’s quality of life or the reduction or elimination of social inequalities and the causes of social exclusion.

Although this definition of objectives is general enough to be valid for all the cases studied (and for many more), the stipulation of particular objectives and, especially, of the strategies for achieving them, gives rise to appreciable differences. In any case, the initial diagnosis must identify the main problems, which will be considerably different in intensity, in the same way as the difference in the base level of development. Therefore, the actions provided for in the plans may differ considerably from one to another.

The scope or content of the actions depends on the financial or budgetary capacity of the local administrations, which in the samples analyzed is very diverse. Often, the smaller the area of competence of the institutions involved, the less their financial capacity is. However, the main objective of the plans is to establish the **priorities** for action, and act accordingly on the resource allocation guidelines. The projects are financed by the habitual resources, with no *ad hoc* financing. As a result, the greater the implication of different Administrations and organizations with spending capacity, the greater the possibility of achieving results through a greater dovetailing of actions and a greater capacity for influencing spending decisions.

In principle the strategic plans are action-orientated, and therefore cannot be limited to being a mere exercise of vision and strategic formulation with no operative links. A lack of resources or deficient consensus with other administrations limits the possibilities of execution and gives rise to a high possibility of social frustration, particularly when its elaboration has generated intense participation (e.g. in Cajamarca).

The cases considered cover a very wide range of actions, which can be grouped into three basic types:

1. Provision of or improvement of **basic services** benefiting the population in general.
2. Actions designed to **rectify** or compensate the **competitive disadvantages** of the businesses within the territory. Actions aimed at development of infrastructures and associated services are included in this area and their immediate objective is to eliminate additional costs caused to the economic activity of the businesses installed in the territory and which reduce their competitiveness, and which discourage businesses from other areas from becoming established in the territory.
3. Actions designed to **free** the territory's **potential**, constructing competitive advantages on which new business opportunities can be built.

The experiences studied include activities of types 2 and 3 in all cases. As a whole, the plans target and prioritize the actions which will achieve results more directly linked to the main problems detected from an employment and income generation point of view. The lesser the degree of development, the more importance given by the action to the basic services which directly affect the population's quality of life²¹, e.g. in Cajamarca. The greater the level of development achieved, the more the objectives tend to build development strategies on the basis of the competitive advantages which have been identified (Jalisco). On the other hand, depending on whether the scope of action is rural, municipal, metropolitan, regional or on a state level, the amount and variety of actions is increased.

- The rural development programs particularly involve training, accessibility and basic services, but also installations for commercialization, producers' associations and introduction of new crops.
- The municipal economic development programs, depending on their size, are also concerned with institutional efficiency, improvement of the management of services and municipal procedures, information, marketing and municipal image services, communication infrastructures, environmental management, services infrastructure, community facilities, training centers and local development agencies, amongst other aspects.
- The regional or provincial development programs will not pay so much attention to the basic services (these are the responsibility of the municipalities), but instead will put more emphasis on programs for improving competitiveness, internationalization, business cooperation networks, business infrastructures, technology centers and centers for research and development of business financing instruments, amongst others.

There are no a priori reasons for drawing up a list of includable or excludable actions, as identification of the existing problems corresponds to the diagnosis and therefore to the search for solutions. So, for example, in the Cajamarca Regional Framework Plan, 18 thematic steering committees were created for subjects including Administration of Justice, Cultural Identity, Biodiversity or Family and Gender Policy. Other plans have focused more strictly on economic development potentials and business competitiveness (Nueva Vizcaya). Open participative procedures tend to extend the thematic field, favoring social themes.

One of the most common visible results is the creation of a new institutionality to work towards the objectives of the Plan: a *Development Agency*, in some cases basically committed to providing ser-

²¹ Strictly speaking, a local **economic** development program cannot be restricted to only including actions of the first type, because even if these are necessary for improving the living conditions of the population, they do not approach specific questions of economic development.

vices to companies, while in others its commitments are extended to cover the spectrum of actions planned for the development of the territory. This is the case for Antioquia, Córdoba, Greater ABC and, much more *virtually*, Cajamarca²². In the Brazil Nordeste the Nordeste Bank fulfils the role of Development Agency²³ and in Jalisco a whole range of business support entities is being developed (internationalization, innovation, design) but not an Agency as such. Among the second group of cases referred to, there are a series of relevant business support centers, such as the IDEB (Buenos Aires), the Center for Business Development and Innovation (CEDYT) in Nueva Vizcaya or the Rafaela Center for Business Development.

The cases analyzed therefore provide us with some interesting recommendations:

- **Defining (identifying) the economic vocation** of the territory as a basis for structuring local development actions is extremely important. This was carried out in studies made by specially-contracted experts (Cajamarca) or by the participating institutions (Chambers of Business, Governmental Agencies) or the Development Agencies, when these existed (Nordeste). The options include revitalizing the traditional industries (Jalisco, Cajamarca), valuing unexploited local resources (Nordeste), modernizing existing industries (Antioquia), stimulating new local business initiatives (Córdoba) or creating platforms for attracting companies from outside the area (Córdoba, Rancagua, Jalisco). The vocation of the territory sets the standards for actions regarding infrastructure, training and institutional development.
- Programs for **training** the working population and business executives are highly relevant. This component acquired a star role in the programs in the Brazil Nordeste, where the Bank combined its financial function as a lender of resources with the empowerment of the borrowers as a guarantee of the successful outcome of the operation and therefore of the credit recovery. The Cuchumatanes Project, as a successful integral Rural Development, project has combined both technical training and access to micro-credits.
- The development of **social capital** for the cooperation between the different local actors and the sustainability of the local development process is important. The Ceará Cooperation Pact, created in 1991 as a permanent forum and which came out of the experience of the mobilization and political participation of the new generation of Ceará entrepreneurs, became extended to all the other sectors of civil society, constituting a network of people, movements and organizations interested in the economic, social, cultural and environmental development of Ceará. This consensus between different entities (local financial institutions, large businesses and NGOs) has been positive in Cajamarca for providing efficient solutions to the problems of micro-entrepreneurs (creation of guarantee funds and the Decentralized Fund), and for generating specific solution-finding dynamics in institutions which in principle had little connection with the problems of SMEs, such as the local University.
- **Leadership** is highly valuable in generating social resource mobilization dynamics, when exercised by the institutions, even if they have *no economic resources*. This was the case of the municipality of Cajamarca, in spite of its weakness as an institution. It shows that the fiscal strengthening of the municipalities is not necessarily a previous condition for municipal implication in local development, and often the reverse happens: implication in the economic development process leads to the modernization of the municipal services. This leadership is also taken on by private sector institutions (the cases of Antioquia, Nueva Vizcaya).

²² Chamber Competitiveness Center.

²³ A special effort is made not to create new entities.

- A **supply of productive services** in proportion with the needs of the local business fabric must be fostered. The initiative of Villa El Salvador centered its competitiveness strategy on the stimulus of the Industrial Park for the support of small businesses, enabling common business services to be provided, together with an adequate infrastructure and control of environmental pollution. At higher levels of local development, the services and infrastructures covered are logically higher too (Córdoba, Porto Alegre, Rafaela). In Porto Alegre, public-private cooperation between the municipal government, the businesses, the unions and civil society as a whole has given rise to programs such as “Trade Point Porto Alegre”, which enables small local businesses to contact with international markets; the Portosol Community Credit Institution, designed to ensure that local micro-businesses and small companies have access to credit; the Business Technology Incubator, which supports the first steps in the creation of businesses incorporating new technologies; and the Restinga Industrial Park, where the Municipality offers infrastructure for the functioning of companies which incorporate respect for the environment. These actions, like those of Jalisco, also stress the importance of an **integral approach to business needs**, developing a range of support which covers all facets of business activity, both financial and non-financial, including the deregulation and simplification of paperwork for reducing the costs of company set-up and management (noticeable in Jalisco, but also, in a more limited sphere, in municipal actions).

This development of services incorporates the creation of new institutions (Business Development Centers in Rafaela, Medellín, Córdoba) but also activates the **latent possibilities** in institutions which had relatively little connection with the business world, such as Universities (Nueva Vizcaya, Cajamarca, Jalisco) and even the Chambers of Commerce.

- It is useful to carry out a **city marketing** service in order to win business for the city, putting across a dynamic image of the local community (this was the case in the Municipality of Rancagua, for example, through its “Rancagua Emprede” program) and carrying out the function of encouraging the initiative of local development also in small municipalities (e.g. Buena Vista, in Bolivia, promoting both tourism and the development of the municipality).
- The cases also give an indication of the improvement made in exploiting the existing **national programs** for training, business support, financing, etc., when local agents become vehicles for **gaining access** to these, e.g. the experience of Nueva Vizcaya with the Mexican national competitiveness program (CIMO). This role is even more necessary when the region is *far* from the center. In the case of Cajamarca it is the local institutions that have taken on this role, even when the programs originate from the central Administration (e.g. the 4R program)²⁴.

The following are some of the most prominent recommendations warning of the risks which existed in the case studies:

- The **municipal** organization must be **strengthened** in order for it to be orientated towards local economic development. Apart from lack of resources, the problems reside in the weakness of the municipal organization itself, where technical training is required to manage strategic development processes, as well as a change in the municipal management model, which must aim towards the search for results, priorities and strategies.
- **Joint institutions** should be favored as a guarantee against the effect of political transitions, which are a negative influence on the stability of the consensus initiatives, as shown by the

²⁴ Unlike the deficient action of programs like FONCODES, which had a minor local impact and which was seriously criticized on occasions, or even when the action was inexistent, as with the IADB's multi-sectoral credit program, which had very little effect on the region.

cases of Córdoba and Cajamarca. Powerful citizens' institutions should exist which will share prominence in this process.

- Local development does not imply independence from national policies, particularly competitiveness and infrastructure policies which are of general interest. The lack of **coordination with the national institutions** lies behind the deficient functioning of some of the experiences (the first phase of Cajamarca; the IDEB, which has suffered from the low level of additionality and complementariness with the national institutions).
- In most of the cases mentioned there is not sufficient capacity to act on all the links of the production chains. The emphasis is placed on improving the conditions of the surrounding environment in order for productive activity to take place. Frequently the entrepreneur comes up against difficulties in carrying out his part of the activity, e.g. financing the precise productive investments. The Nordeste IDPs contemplate this (by the ordinary action of the Nordeste Bank) and in some of the cases the creation of financing entities for micro-businesses has been anticipated (Porto Alegre) or specific financial aids have been established (Jalisco). It is therefore convenient to link the local development programs with other programs, normally of a national character, which will cover these other facets.
- The national programs have insufficient access to the territories far away from the center. This therefore favors their **territorialized (decentralized) management** in connection with local development entities or agencies.
- Finally, it turns out that productive investment is of limited efficacy when it is not accompanied by training and strategic business information.

2.8 SUPPORT TO MICRO- AND SMALL BUSINESSES

The orientation of the programs toward the creation of employment and revenue immediately leads to considering the role and needs of local businesses, their organization, their articulation with the national and international markets, and their access to information and technological innovation.

The crucial role played by the micro- and small businesses in local development is recognized, but so is their fragility and the need for overcoming outdated management models. This point of view, away from traditional *assistance* approaches, exists in all the cases analyzed, and in almost all of them it entails the creation of specific organizations and measures for the promotion and development of micro-businesses and SMEs - in Córdoba, Greater ABC, Antioquia (micro-business plan) and in Jalisco, where a great array of organizations and support programs is being created. It should be pointed out that the emphasis is always placed on the competitiveness of the companies and their insertion into international markets. More examples of this crop up in the group of cases referred to, from Rancagua to Rafaela, including the IDEB and Villa El Salvador.

In some outstanding cases support to SMEs goes well beyond the promotion of business associativity and training programs, by placing instruments within their reach to facilitate their financing (micro-entrepreneurs) and help them gain access to formal financing channels, creating a guarantee fund, as in the cases of Porto Alegre and Greater ABC. Even in Cajamarca, where the Administration as such lacks the resources to emulate these steps, other agents such as the NGOs, with the involvement of the Yanacocha Mining Company, have created instruments of this type (micro-credits, guarantee funds) aimed for rural producers.

Although they make up the vast majority of the productive fabric, the SMEs should not be hastily identified with local development. As we mentioned before, the large business are also outstanding interlocutors in the necessary dialogue between businesses in their local context (Greater ABC, Jal-

isco, Cajamarca, Antioquia, Córdoba) and the object of this dialogue also occurs with the promotion of their productive articulation with the local SMEs.

2.9 FINANCING LOCAL DEVELOPMENT PROCESSES.

The financial capacity of many of the local administrations in Latin America is very limited as a consequence of the narrow tax base, the inefficiency of tax-collection systems and the antiquated tax rules. As a result, the percentage of *own* income is low, and most of this comes from transfers from the Central Administration.

Moreover, the local administrations' access to bank loans for financing their investment – in the cases where the law permits this – is hindered or actually prevented by the lack of guarantees (prospects of future income). Public management practices suffer from a lack of transparency, making a thorough knowledge of their financial state impossible.

The situation is undergoing positive change in some countries where the process of fiscal decentralization in favor of the local governments is more advanced. Mexico is the most obvious case, with a growing number of states and large municipalities which have not only witnessed a considerable increase in the volume of transferred unconditioned income, but have also established practices of information and financial management which have given them access to a convenient certification from the international rating agencies²⁵. But these cases reflect more of an exception than a general rule. In such circumstances it is relevant to question the viability of local attempts to take on responsibilities for economic development, providing themselves with an ad hoc organization, and becoming actively involved in the promotion of economic and productive investments, in the context of the experiences described.

a) Financing of *specific institutional*ity

The constitution of *ad hoc* organizations and the ordinary functioning of all or part of the services provided (information, training, assistance to consensus processes, specialized services) are initially financed through their own local resources or by technical assistance program subsidies.

In the different assessments made of the case of Rafaela over the last few years, it is notable that the Center for Business Development has obtained significant financial sustainability ratios²⁶. Even so, the experience of the European Agencies confirms that complete self-financing based on income from services is a chimera. However, a more complete measurement of its impact should include the effects produced by the greater economic growth and employment generated precisely by the greater dynamism of local businesses incorporating their services, plus their contribution to institutional sustainability generated in the process. The assessment reports recognize that as a result of the work carried out, the business entities of Rafaela and its region have gradually evolved from corporate and trade-union positions to a growing generation of collective confidence and structuring which have improved their competitive stance.

Therefore, the evaluation of the entity must take into account the returns implicit in the improved functioning of the production system (greater turnover, higher level of employment, more exports). Such an improvement will logically have the effect of an increase in the tax revenue received by the Administration (personal income tax, tax on company profits and

²⁵ The IADB's FORTEM program is progressing in this direction with great success.

²⁶ An initiative financed by the MIF. Three years after it began to function, the turnover from the services provided covered 84% of variable costs.

on trade). The core of the problem, apart from the difficulty of calculating the evaluation itself, is the fact that the current local tax revenue systems are not very sensitive to improvements in the tax base and do not include all the effects produced²⁷: the system does not have the necessary *points of connection* with the general tax system.

In practice this means that the promotion institutions will only be able to finance themselves partially on the basis of directly-provided services, while the rest of their financing has to come from contributions made by the local Administration and partner companies or their representative bodies, on the basis that they give rise to better functioning of both of these. Really the core of the problem is in seeing these improvements in such a way as for budgetary discussions to be able to take place efficiently, and so that there is an instrument of evaluation in order to act in consequence.

b) Financing the improvement in **traditional municipal services**

The investments made in municipal services have clearly determined recipients (*clients*) and both the current expenditure and investments may and should be integrally financed by them²⁸. The problems arise in countries where the local administrations do not possess the instruments for updating charges, and decades of deficient service reduce the credibility of any attempt to update these before the improvements are noticed. But ultimately, the problems are those of communication and management, and do not entail any conceptual difficulties. The flow of future revenue, duly updated, should serve as a sufficient guarantee for financing the relevant investments by means of bank loans, both if the provision of these remains in the hands of the Public Administration or if they are to pay the private business manager, in the case of provision under a concession system or of a privatized nature.

In practice, the financing of services and precise investments entails a significant burden for the local governments. In smaller municipalities the coverage percentages are low and there is a long list of outstanding debts. As a result there is a wide margin for improvement of municipal management in this area via the corresponding technical assistance and the application of practical improvements.

c) Financing of investments and **economic infrastructures**

The financing of infrastructures and services of general use (highway administration, education, health, amongst others) raises more complex problems because it is difficult in most cases to identify the users or establish a pay-as-you-go system, and so their financing habitually corresponds to general tax revenue, even when possibilities of direct charging from costs doubtlessly exist in some cases (improvements which have repercussions on the value of real estate).

The investments are habitually paid for by specific or conditioned transfers from the central administrations. If evolution is to be made towards non-conditioned revenue, it is desirable for decisions to be based on calculation of social profitability and for the investments to be financed by long-term loans, with the guarantee of the Local Governments' future income.

The justification of financing productive investments (e.g., industrial parks, business incubators, services centers, trade exhibition centers, transport offices or others) does not show any major conceptual differences in its treatment with relation to non-productive investments, although the anticipated returns should be calculated in terms of future increases in

²⁷ A fiscal increase may be registered owing to an increase in the number of business established.

²⁸ Under no circumstances should the provision of municipal services be a payload for the Administration, and transfers of revenue which may be established for reasons of social welfare should clearly figure as such.

employment and in tax revenues. A large part of these investments are recoverable by the users (e.g. industrial parks) and the local administrations basically play the role of promoters, and, where applicable, financiers. A legal problem which the local administrations in many countries have to face is the legal difficulty of getting into debt or applying tax resources for financing this type of investment.

The case studies show a clear involvement in the financing of productive investments on the part of the municipalities and regional governments with financial and legal capacity, even if other municipalities with an identical capacity do not assume this function in accordance with their development strategy or their desire to become directly involved in the promotion of local development.

d) **Financing the strategic reflection process**

This poses less problems owing to its lower relative cost. Insofar as the process is carried out with collaboration from consultants, the local Administrations normally finance it with subsidies from other Administrations, but there should not be any major problem in financing it with funds from the collaborating entities themselves.

By way of a general conclusion, we would state the following:

1. The poor financial capacity of the municipalities and other SNGs limits their capacity for long-term borrowing in order to finance investments (and therefore to be direct clients of the Bank), consequently restricting their capacity for taking on the promotion of investments of an economic or productive nature, with the exception of the larger and better managed entities.
2. There is an obvious need for improving the fiscal capacity of the local governments and other SNGs, renovating their tax rules, their management systems and their forms of providing services. At Central Administration level it is necessary to set down distinct guidelines for decentralization which will establish a clear distribution of powers and, on the basis of this, to construct a system of allocation of tax revenue that will reduce conditioned transfers to a minimum.
3. It is desirable for the local income systems to have some kind of *return* mechanism, so that tax collection is sensitive to local development promotion activity. In this way it would be easier to reason in numbers regarding the social profitability of the funds dedicated to these activities.
4. Experience shows however that this process does not necessarily have to be previous to participation in programs with a local economic development component, as local economic development is doubtlessly the best way of contributing to their economic restructuring.

3 THE BANK'S CURRENT PRACTICE

3.1 THE BANK'S SUB-NATIONAL DEVELOPMENT STRATEGY

The Bank's corporate strategy gives priority to increasing a countries' competitiveness, this meaning the country's capacity for economic development within a context of international free trade on the basis of its own provisions of physical and human resources.

Despite this fact, the Bank has made loans of significant amounts to sub-national governments: in its 40 years of activity, these represent 13% of its accumulated historical portfolio (17,400 million US\$ in constant 1992 values). The operations portfolio in preparation for the three-year period 1999-2001 includes 71 development projects which represent 8,300 million US\$ in loans. These figures show the growing interest for including the local sphere within the range of the Bank's financial actions.

In response to the growing interest in sub-national operations, the bank has established a sub-national development strategy, with four priority lines of intervention:

1. Clarification of inter-governmental relations: distribution of responsibilities among the different administrations; spending decision systems based on a priorities system and on the principle of restriction to budgetary limits; application of the principle of adapting the burdens to the benefits expected.
2. Systems of government: establishment of mechanisms for citizens' representation and supervision, transparency in management and accountability (responsibility) on the part of the sub-national managers.
3. Institutional capacity of sub-national governments: allocation of resources and capacities in order for the SNG's responsibilities to be adequately carried out.
4. Financing guidelines based on the principles of adequacy of resources for developing the functions they have been charged with, with a predominance of own resources and transfers which will not distort the spending preferences, application of rates for services provided and a rigorous regulatory framework which will control the extent of the debt²⁹ so that it will contribute to maintaining a sound fiscal discipline.

The idea of promoting the SNGs' implication in economic development is not expressly mentioned as a priority in these points. In fact one could think that actions which the Bank can support and finance by means of technical assistance operations are basically being put down to the development of regulatory frameworks³⁰. However, during the last year, we have witnessed the appearance (and reappearance in some cases) of multiple projects for loan transactions which include components that may perfectly conform with the concept of local economic development.

In fact, as we have stated above, the Bank has carried out numerous loan transactions through which investments in *typically* municipal³¹ or local areas have been made, but up until recently it has paid little attention to operations which would promote *local economic development* from the integral perspective we are talking about here. And, whenever a component of local economic development has been included, it has been this component which has given rise to the most unsatisfactory results³².

²⁹ We would draw attention to the need for avoiding the so-called *moral risk* by which the SNG unwisely get too far into debt, trusting that the national Government will come to their rescue if need be, by setting down clear rules to prevent this. Cases of State banks with insolvent credit portfolios have frequently arisen in Latin America.

³⁰ The introduction of good practice can also be incentivated by introducing institutional strengthening components in loan operations. The FORTEM program mentioned above has set a highly interesting precedent in this line in Mexico, as it makes this component a prerequisite which opens the way to financing.

³¹ These are basic infrastructures (water supply, sanitation, electricity supplies to rural areas, etc.), housing or urban transport.

³² Verónica López-Sabater, "Revisión de operaciones del BID y FOMIN con componentes de desarrollo económico local", SDS/SME, December 1999, Washington DC.

3.2 REVIEW OF LOCAL AREA BANK PROGRAMS

With regard to Bank practices, the term local development covers a number of very different types of project. More precisely, an internal Bank document³³ defines local development projects as being those which:

- Strengthen the policy and the institutional framework for development at a local and municipal level;
- Support the role of the actors (municipalities or groups of municipalities, community and non-governmental organizations, plus central government agencies with local development-related responsibilities, such as social investment funds, line departments and municipal institutes) in the defining and carrying out of their responsibilities within the framework of the country's decentralization;
- Attempt to meet the requirements of specific services or social conditions at a local level (municipal services, social investment, provision of social services, relief of human poverty including neighborhood improvement, etc.).

This definition clearly encompasses projects which can be called decentralization, strengthening or institutional modernization projects and traditional municipal development projects, but it does not include what we define above as being local **economic** development activities (see section 1.2 *in fine*). In line with this idea, for the actions to be accepted as local economic development programs in the strict sense of the word, they must be: a) **expressly** orientated towards the promotion of economic development in the area and b) conceived from the standpoint to an **integral** or global vision of the process in the territory.

In other words, a pre-requisite for any local development action lies in the existence of a **prior strategic reflection** of a more or less categorical or formalized nature, in which the precise development guidelines for the territory are established, from the basis of the initial starting conditions (diagnosis, plus strengths, weaknesses, opportunities and threats tables) and from a vision of, or conviction for, future development preferably established on the basis of participative or consensual exercises between the public and private agents.

Therefore, although the municipal development programs investing in basic municipal infrastructure (sanitation, lighting, roads, education, health) doubtlessly contribute to improving the living conditions of the residents and to making productive activities possible, they cannot be considered local development programs if these investments are contemplated individually³⁴.

³³ “Lineamientos para la coordinación de las operaciones RE2 relacionadas con el desarrollo local” (Lineaments for the coordination of local development-related RE2 operations), drawn up by an *ad hoc committee* in region II, dated 13/02/2001.

³⁴ In the same way as the competitiveness improvement or productive development programs cannot be considered to be local development programs either, when they are orientated towards the productive sectors *per se*, without taking into account their relation with the territory or the development conditions within the territory.

Table 3. List of the IADB's recent operations with a local development component

Country	Program	Date	IAD-B's contribution ^b
Argentina	1. Support to the Strengthening of the Regional Productive Sector in Relatively Less Developed Areas.	PII 21/04/01	20.0
	2. Reform and Development of the Argentinian Municipalities	PP 03/12/98	250.0
	3. State Modernization in the Province of Córdoba	PP 14/11/00	215.0
	4. Integral development of large urban agglomerations in the interior	PP 10/11/97	260.0
	5. Support to modernization of the State and fiscal strengthening of the Province of Buenos Aires	PP 11/12/96	350.0
Bolivia	6. Development of tourism	PI 09/04/95	5.0
Brazil	7. Support of the urban development of the State of Paraná (R-190), 1996 (Paraná cidade)	PP 06/02/96	249.0
	8. Municipal development of Porto Alegre	PP 17/02/98	76.5
	9. Sustainable development of the Mata Pernambucana area	PII 02/05/01	120.0
	10. Development of Eco-tourism in legal Amazonia	PP 05/10/99	11.0
	11. Preservation of historical urban heritage (MONUMENTA)	PP31/08/99	62.5
Chile	12. Improvement of the efficiency and management of regional investment	PP 31/10/00	300.0
Colombia	13. Municipal development II	PP 10/11/97	60.0 ^a
	14. Alternative development	PP 26/11/96	90.0
Ecuador	15. Support to decentralization	PI 02/04/01	4.8
	16. Municipal development II	PII 17/02/98.	38.4
El Salvador	17. Local development II	PII 22/04/01	50.4
Guatemala	18. Sustainable development of Petén	PP 05/11/96	19.8
	19. Community development for peace	PP 22/10/96	50.0
Honduras	20. Reduction of poverty and local development	PP 07/11/00	25.0
Jamaica	21. Development of infrastructure in the districts	PP 27/07/99	35.0
Mexico	22. Strengthening of States and Municipalities (FORTEM)	PP 28/09/99	800.0
	23. Program for modernization of labor markets, stage II, phases 1 and 2	PP 26/11/96 PP 20/06/00	250.0 200.0
	24. Investment in human resources for regional business development	TC 01/10/97	1.3
Nicaragua	25. Support to implementation of poverty reduction strategy	PP 07/12/00	10.0
	26. Fighting poverty and strengthening of local capacities	PP 03/10/00	50.0
	27. Modernization of the municipality of Managua	PP 09/05/00	5.7
Panama	28. Sustainable development of the Darién	PP 20/11/98	70.4
	29. Support to the tourism sector	PP 22/09/98	2.5
Peru	30. Support of the National Compensation and Social Development Fund (FONCODES)	PP 28/05/96	150.0 ^a
Uruguay	31. III Uruguay Municipal Development Program	PP 05/03/97	54.6

^a Plus another loan of the same amount from the BIRF. ^b Million US\$.

PP: Loan proposal; PI: Profile I; PII: Profile II; TC: Technical Cooperation.

In actual fact it is enough to **qualify** the concept of *development* with the adjective **socio-economic** and **include** the promotion of economic activity within the sub-national public administration's responsibilities³⁵ (and, therefore, of the services which are offered) in order to make the above definition totally compatible with the concept proposed for local development, removing it from the ex-

³⁵ Which is correct from a historically dynamic perspective.

clusive aid sphere. In this way, local economic development programs (LED) are a sub-unit of the local development programs.

Given the relative proximity of the concepts being handled here, we considered it interesting to review a series of recent Bank operations, either in progress or at the design stage, in order to evaluate their degree of proximity to the formulation proposed for sub-national economic development and to establish where necessary the possible guidelines for achieving complete conformance. The 31 operations reviewed³⁶ are listed in Table 3, and to do this the documentation available in the Bank's offices (almost always consisting of the loan proposal and the operative regulations) was examined and interviews were held with the Bank officials involved in their preparation.

In this context, we should talk about *families*³⁷ within the group of local development projects, defined according to a measurement of their proximity or distance in relation to the concept of local economic development. This measurement takes two different perspectives into account:

- The *focus* or approach inherent to the local development component in relation to economic productive promotion, and
- The *relevance*, depending on the weight given to the productive development component within the program as a whole.

We would therefore distinguish three *families* of projects with a relative proximity between each other, and so we can establish a progressive path of transition towards the concept of local economic development. The 31 operations are distributed into groups in Illustration 2:

³⁶ All the operations studied except one (that of Nueva Vizcaya, one of those referred to in the previous chapter) are loan operations. And all but one are also territorial programs. the exception is the Mexican labor market modernization program, whose inclusion is justified by the relevant use it makes of one of its components (CIMO) in the case mentioned of Nueva Vizcaya. Of the 31 operations reviewed, 18 appear in the study made by V. López-Sabater, *op.cit.*

³⁷ In the IADB study (1999), the projects are classified into four groups: (i) Operations including studies on strategy and institutional strengthening of the economic territory; (ii) *Sectoral* operations in the sphere of tourism and operations for recuperating cultural and architectural heritage; (iii) Operations which finance local infrastructure facilitating productive activities; and economic development operations for special areas, such as those taking place after armed conflict, alternative crops in drug-trafficking areas, etc.

1. Local development projects which do not have a productive approach, whether this is because their approach is not exactly territorial (e.g. a business competitiveness improvement program, which can be used locally but in which no measures of this type are included) or because even if they do have a territorial approach they are not directly orientated towards the promotion of economic activity³⁹. Three operations out of the 31 reviewed lack a local productive approach: in one case because despite having a clearly productive orientation it does not have a territorial focus, and the other two because their approach is purely institutional and they do not go into the theme of productive development. They are marked on the graph as group ❶.
2. Projects which have an approach which is close to that of productive development but incomplete, either because they are limited to financing public investments that are either traditional (water supply, sanitation, etc.) or management-related (improvement of services), or because they are mainly restricted to financing investments in basic social infrastructure (poverty eradication operations for example), or because even if they are directly orientated towards economic promotion, their approach is strictly sectoral (e.g. tourism or restoration of the historical urban heritage). This group, group ❷, includes almost half the programs examined (14), and they are divided into the three subgroups mentioned:
 - Seven traditional municipal development programs which *could easily incorporate* productive development operations without their design being altered⁴⁰;
 - Three poverty eradication programs which belong more to the social sphere than to the economic area, but which follow a participative method parallel in some ways to the LED programs,
 - Four tourism and cultural heritage programs which have a clearly productive character, but which display a sectoral approach and not an integral one.
3. Projects which are expressly orientated towards the economic development of the territory and which include private sector support actions (e.g. training and technical assistance, investments in infrastructures of a productive nature). 14 programs are included with very different degrees of *relevance*. In fact, the weight of the productive component within the total of the budget for the actions varies from the purely nominal to occupying the whole of the budget, and so four sub-variants can be classified:
 - Two cases where the productive component is only admitted when it is of a pilot nature or very limited (group ❸).
 - In two other cases the involvement of the local authorities in the promotion of private productive activity is admitted in a natural way, but in practice the catalogue of investments liable to be financed remains within the classic canons (group ❹).

³⁸ In the IADB study (1999), the projects are classified into four groups: (i) Operations including studies on strategy and institutional strengthening of the economic territory; (ii) *Sectoral* operations in the sphere of tourism and operations for recuperating the cultural and architectural heritage; (iii) Operations which finance local infrastructure facilitating productive activities; and economic development operations for special areas, such as those taking place after armed conflict, alternative crops in drug-trafficking areas, etc.

³⁹ The first of these may be relevant for local development, but they lack the adequate approach; the second may be geared towards local development (institutional strengthening, participative mechanisms, local infrastructures, etc.) but they do not include measures for incorporating productive promotion activities.

⁴⁰ In fact, the Mexican FORTEM permits this in its current wording, as the eligibility conditions for the investment projects are limited to being included in the investment plans of the municipalities and States towards which the plan is aimed.

- A further six programs fully admit the concept of local economic development, considering investments of a clearly productive character to be qualifiable together with other traditional ones (group ⑤). In practice, however, these items are hardly used, because the traditional infrastructures (as a result of their impact, their necessity or political profitability) tend to displace the productive activities to lower positions on the list. Within this group operations aimed at rural development or development of tourism, or alternative crop promotion are also included. Their approach is conditioned by special circumstances (conflictive areas), but they fit perfectly within the concept of local development due to the role played by the local communities in the identification of productive projects.
- Finally, three programs are fully centered on the private productive approach, and therefore the strategic approaches and the mechanisms of structuring and public-private cooperation are more important (group ⑥).

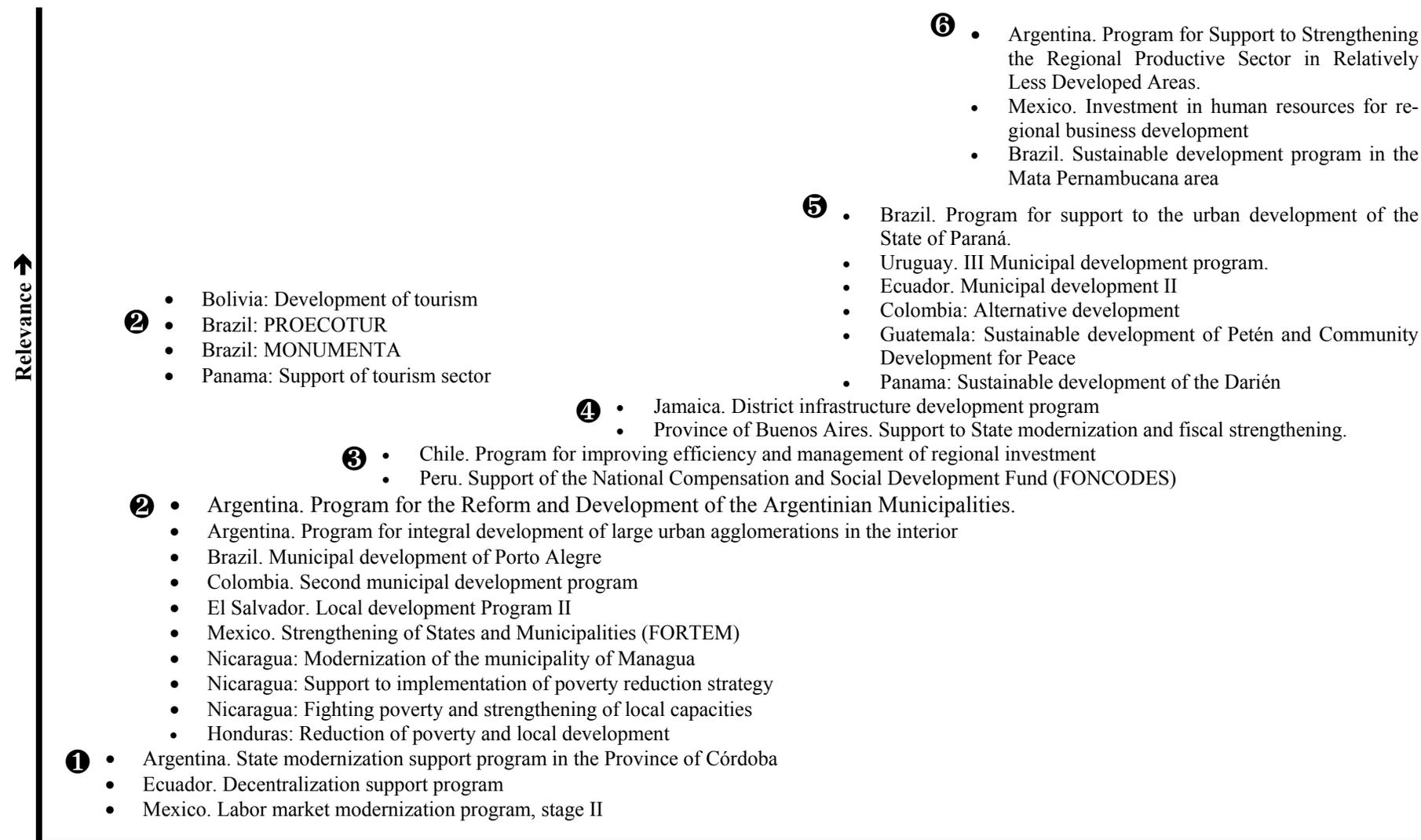
Illustration 2 shows that rather than closed groups, there is a progressive line of projects with a gradual approximation to the local economic development approach. This is doubtless an *ex post* interpretation, but in some cases this intentionality appears in the approach of the program itself, which includes the productive component, of a pilot or *test* nature. This is the case with the programs in Chile and Peru, for example, included in group ⑤. The pilot component of the Peru program⁴¹, however, has not yet been carried out.

This progressive line shows that the vast majority of the programs could easily take in a local economic development approach by *extending* their objectives and eligibility requirements. Therefore, the municipal development programs included in group ② could have the same consideration as Uruguay's III Municipal Development Program or the program projected for Ecuador (and therefore in category ⑤). It would be enough to include the promotion of productive activities within the eligible sectors, with a group of investments which are not greatly committed and which fit into the concept of industrial urban development⁴².

⁴¹ In Chile the program is at the negotiation stage.

⁴² Which does not detract from the fact that the resources of the Uruguay program have not been used in productive projects either.

Illustration 2. Ranking of Bank programs reviewed according to their relevance and productive local development approach



3.3 EFFECTIVENESS OF PROGRAMS FOR THE PROMOTION OF LOCAL PRODUCTIVE DEVELOPMENT.

The first conclusion which can be drawn from the above analysis is that up until now **there have been no** local economic development programs designed with an integral approach, and so their effectiveness cannot be evaluated. Of the three programs classified in the group of maximum conformity with this approach, two are still in the preparation phase and the third, although it is recognized to have been successful, is not a loan operation.

As regards the other eleven operations with an **express** productive investment component, the problem lies in the fact that this component does not bear any relevant weight in any of the cases. They are programs in which a variety of *different* objectives are combined, meaning that the less relevant components in terms of budget amount or which are more complex to carry out (as they involve the coordination of different authorities) are relegated to positions of lesser importance or even *forgotten about* in the process.

Frequently, a conflict of interests between the promotion of certain projects over others arises for the recipients of the program, e.g. productive investments versus basic infrastructures. The latter have more *visibility* and can be more *profitable* with a view to election periods, for example. In other cases the limited success of the productive development component is a result of the reduced financing available.

To sum up:

- These are marginal or *symbolic* components within the operation as a whole which do not arouse sufficient interest from the organization responsible for carrying them out, which is normally more concerned with the *percentages* of execution, which vary very little or not at all with this type of component.
- There are no mechanisms through which to articulate a suitable interaction between the public and private sectors. If, apart from this, the program or its operative regulations do not sufficiently develop the mechanisms for implementing the component, the authorities responsible come up against real difficulties in knowing how to promote private sector action (if they try to do so).
- The executing organizations are mostly national, and therefore far removed from *local reality* (both physically and mentally).
- When, on the other hand, the identification, design and financing of the productive projects depends on local institutions (of indigenous communities, in the case of national pacification projects or application in conflictive areas), these do not possess the relevant management capacities.

These conclusions coincide with those drawn from the IADB study (1999).

4 GENERAL CONCLUSIONS AND RECOMMENDATIONS

4.1 CONCLUSIONS

a) Growing pressure in favor of the territorialization of economic development strategies

It can be seen that there is a growing demand for the SNGs to take on greater responsibilities and greater prominence in the formulation of local economic development strategies. This demand comes from the SNG themselves in some cases, and in others from the representatives of business

clusters and civic forums. This pressure is the result of a confluence of several factors mutually reinforcing each other:

- The conviction, backed up by statistical indicators, that national policies are not solving the problems of productive restructuring and employment creation in specific territorial environments. At best the solutions are insufficient or unsuitable⁴³.
- The demand for a greater citizens' control over the exercise of the political function. The decentralization of the national State organization is seen as a decisive step in the process of democratizing political structures, both because the *physical* approximation between the citizens and the governments elected is made possible and because it represents a dispersion of power.
- The recuperation or strengthening of the population's identification with their territory, so that their specific **productive vocation** is encouraged, making use of their natural resources or capacities within the framework of a dynamic, sustainable economy.

From the Bank's perspective, there have been very few possible clients and these have always been restricted to Federated States with extensive local financial autonomy (Argentina and Brazil particularly). Few local authorities (especially municipal) consider themselves *competent* to manage the local economy. The trend is clearly towards rapid growth, at different rhythms depending on the country. Therefore, the role which the municipalities in Brazil - and, to a lesser extent, Argentina - are willing to take on in relation to the LED is much greater than in other countries such as Mexico.

The option does not depend on the size, level of income or federal tradition of the country: in fact, the approach is becoming very popular in several of the small Central American countries, even in eminently rural areas. In these countries this process of assumption of responsibilities together with LED is taking place hand-in-hand with the growing democratization of the local administration, where participative budget practices are becoming extended as a form of legitimizing the new democratic powers.

b) Local economic development strategies are not an alternative to competitiveness development strategies but instead constitute their territorial dimension

However, it is important that the sub-national development strategy should not be viewed as just another strategy, perhaps of a lower category than the national competitiveness development strategies. On the contrary, LED is the territorial dimension of the competitiveness policy, as this cannot come into being in the abstract⁴⁴ but instead through productive activities which take place in specific territories.

The local development cases studied and those referred to are not aimed at improving the efficiency with which the SNG provide their services, but above all take on the problems of the relationships between agents so that they can carry out their function in the most efficient way. When the actions have been completed the touchstone is the improvement in the *systemic territorial competitiveness* as a platform for the efficiency of business activities and of local public management.

The improvement in the efficiency of the municipal services (liable to be privatized or not), or of the municipal management itself (fiscal, social, etc.) is an important component of local development, but from the point of view of local **economic** development it is not an end in itself, but a

⁴³ See the references included in section 1.2 *in fine*.

⁴⁴ Even if there are measures whose application or effects regard the whole of the territory. But even what could be called a *regulatory framework* is transferred in a different way to some territorial environments than to others.

means. As a result, on the basis of the real experiences, no preference can be identified between one type of activity and the other.

Another consequence deriving from this perception of the LED strategy is that the implementation of the national competitiveness programs would gain in efficiency if they had points of articulation or territorial insertion in their execution.

c) The lack up to now of programs suited to this new perspective within the evolution of the Bank in relation to the municipalities and other sub-national governments

In spite of the Bank's important course of development in financing municipal projects, it has not worked to date on any programs designed to respond properly to this type of consideration. The reason for this is that the habitual client of the Bank's programs is the national State, and that this growing demand from the sub-national governments is relatively new to the Latin American and Caribbean panorama.

With a view to the future, several problems still stand in the way of this latent demand being realistically channeled:

- The first derives from the limitations of the national constitutional frameworks, which restrict more or less acutely the **de facto** capacity for action of the SNG in relation to local economic promotion⁴⁵. These restrictions affect their spending capacity, which is determined in turn by their revenue capacity, both via tax resources and their borrowing capacity⁴⁶. As a result, an obvious connection exists between political decentralization (transfer of spending powers) and fiscal decentralization (transfer of tax revenue).
- The second originates from the institutional weakness of the SNG, which affects both the qualification of their staff (turnover, lack of a specific degree, etc.) and the means and procedures for the management of municipal affairs and services.

d) Relative autonomy between fiscal decentralization programs and local development programs

As a result, *decentralization* and *local development* are initiatives which mutually reinforce each other but which do not coincide, up to the point that an intense decentralization program does not necessarily mean that the SNG will take on the **leadership** needed for local development. And, inversely, cases exist where the SNG or local communities exercise an important leadership in local development which is not accompanied by a relevant own spending capacity.

The main recipient of the decentralization programs are the National Governments⁴⁷. Their design and implantation generates expenses via technical assistance and staff training (institutional strengthening) of the administrations, particularly the local administrations.

⁴⁵ In general, no prohibition or legal limitation exists for the development of economic promotion activities in generic terms, as the municipal governments have extremely wide powers regarding their citizens' welfare. Whether they have the economic resources (fiscal or financial) to do so is another matter entirely.

⁴⁶ These are two different matters but they are related, as borrowing capacity is limited *inter al.* by its capacity for guaranteeing the payment of the debts, which depends on its future revenue (either fiscal, from assets or from services). But apart from this restriction some countries limit to a greater or lesser extent the legal power for subscribing loans of more than a year's duration. It is a problem of *political minority of age* for the sub-national governments.

⁴⁷ In dialogue with the SNG.

However, the main recipients of local economic development programs are the sub-national governments and, in addition to requiring technical assistance for the phase of design and institutional strengthening, they generate a need for financing in order to carry out the actions provided for in the short, medium and long term (training, institutional development, investments, etc.). As a result, these are two policies which have different requirements and which should be approached by means of different programs.

e) Diversity of possible content within municipal development operations

In spite of the growing demand which has been referred to in the first conclusion drawn, at present the local administrations face clearly different needs, owing both to the path covered by each of them up to the present and to a legitimate exercise of different political perceptions or options. Different levels of problems require different responses⁴⁸.

- It is a universal requirement to have a municipal administration which is adaptable and efficient, with speedy processes that do not constitute a burden for the population or a hindrance for the exercise of economic activity, and basic services satisfactorily covered and with economy of costs.
- The assumption of leadership in local economic promotion, even if this is reasonable and advisable, may not be a need which is universally shared today. Therefore, it is fair that the municipal development programs should cover various components on demand from those interested.

As a result, it can be seen that several types of programs or components of programs for local development exist:

- (i) Decentralization programs, aimed towards the Central Government.
- (ii) Programs for improving the efficiency of the provision of *traditional* services (water supply, health, public lighting, slaughterhouses, markets, etc.) and the extension of the scope of the services provided for the population (in education and health, for example).
- (iii) Programs or components for the implementation or promotion of local economic development processes, including the institutional strengthening of the actors involved (municipalities or a group of municipalities, community and non-governmental organizations; central government agencies with local development-related responsibilities, such as social investment funds, line departments and municipal institutes);
- (iv) Programs for the financing of actions related to local economic development (institutional development, training programs; productive investments).

The last three points may be encompassed within a global local development program and may be necessary for SNG who are starting out on this process. Other Administrations with an already consolidated process history will only require the last of the components.

⁴⁸ For example, the municipality of Tlanepantla de Baz, in the State of Mexico, participating in the FORTEM institutional strengthening program, is clearly committed to the modernization and efficiency of its municipal services, with a favorable evaluation from two international debt qualification agencies. Its Development Plan pays much attention to the needs of localized industry in its terms and it clearly acts on land management and sanitation and communications infrastructure management. But it does not consider the development of leadership in business promotion or the creation of a Municipal Development Agency to be necessary.

f) *Weakness of partial processes, in the case of both Bank programs and local development experiences*

The *à la carte* type of program described above must not lose sight of the fact that the processes concerned are extremely complex, which means they should not be taken on partially or by sectors, or without their previous stages having been covered. The experience with Bank programs allows us to deduce that in such cases the local development components are not properly undertaken, whether this is due to inherent difficulties or to their marginal character within the context of municipal actions. This marginal nature is worsened by the lack of direct dialoguing between the beneficiaries of the programs (the local administrations) and the suppliers, who are normally *centralized* institutions. The experience of these cases indicates that the launch of initiatives without the relevant means for undertaking the successive phases ends up creating discouragement and frustration.

g) *Limited financial solvency of the potential candidates for this type of project*

The growing demand for local prominence often comes up against the precariousness of the resources and capacities of the local administrations, particularly the small ones, not only financially and fiscally speaking (availability of resources and the capacity to manage them) but also with regard to human resources (quantity and quality of elected offices and local administration employees).

This explains why, with regard to local development projects, the Bank is giving priority to institutional strengthening programs aimed at increasing tax collection capacity and the efficiency with which traditional basic services are managed. In fact these represent a first step in the assumption of other new roles in local economic development, although it is arguable that this will be a *previous* requisite.

But although it appears logical that a local government interested in promoting the efficiency of the productive system of its community should carry out efficient management of its own affairs – even just for credibility's sake – the capacity for social mobilization has also been observed in municipalities with few own resources.

h) *The need for systematic evaluation of local development programs*

The public financing of infrastructures, both social and productive, through long-term loans is a practice which is evidently justified, despite the fact that (i) its cost is recuperated by taxes, in some cases, and prices in others, and (ii) its social or financial returns are evaluated in order to establish the correct prioritization of projects.

On the other hand, the local development promotion activities which become programs (e.g. training of workers and small businessmen, incentives to innovation, information and assistance services, mediation and cooperation activities, and the carrying out of own exercises of local strategic reflection), or lead to the development of specific institutions and services (local development agencies providing information, mediation, assistance services, etc.) are normally financed partially or completely by the Public Administration (local or higher level). The investment needed to equip and launch it (investment cost) is justified by the need for creating effects of scale, generating local demand or producing synergies (externalities). However, the debate on the sustainability of such initiatives without resorting to public support continues. The experience obtained not just in Latin America but also in Europe shows that complete self-financing is not feasible, and it is mainly financed by the public sector, diminished to a greater or lesser extent by the income deriving from charges or by the provision of services when these apply.

Ordinary financing from public resources or contributions from the local business community (Business Chambers or company clusters) is fully justified if their activity leads to an improvement

in the conditions of business performance, greater job creation and wealth, and, as a result, greater tax revenue. The problem lies in the fact that there is no practice of systematically evaluating the results of these programs in order to quantify the ultimate benefits obtained for the local community.

4.2 RECOMMENDATIONS

a) To design specific programs.

It is recommendable to design specific programs⁴⁹ in order to approach local economic development requirements because these are programs which require an integral design and entail a complex formulation of objectives and processes. Their inclusion as an isolated component of other programs is therefore not advised, even if these are municipal programs. The experience of the Bank – the success of specific programs of the MIF and the inexistent or much lesser success of components incorporated in loan operations – back up this recommendation.

This statement can however be more finely tuned. Indeed, two different types of situation can be distinguished, depending on whether these type of processes are to be implemented *ex novo* in regions in which they have not been previously established, or if, on the contrary, specific activities are being financially backed in regions where these processes are already functioning.

In the first case a *package* or sequence of actions covering all the dimensions of the process should be contemplated, beginning with a first optional stage of strategic reflection and generation of social consensus dynamics with the participation of public and private actors from the region, as is suggested in the following section. This stage would really be a prior qualification requisite for the program, which could last a year.

In the second case the Bank's intervention could be limited to financing specific instruments, infrastructures or operations which may agree perfectly with traditional municipal operations, only having to ensure that the operative regulations consider admissible the whole range of investments necessary for local economic development. In this case, the eligibility requirement can be limited to the action as such being considered and evaluated amongst the priorities of the local strategic plan (or equivalent instrument).

b) What the content should be: Approximation by stages to an overall local development program

It is proposed that the program be made up of five stages or phases which do not necessarily have to be successive or applicable to all the situations:

1. A previous⁵⁰ or parallel stage of strengthening and restructuring the territorial institutions, which will include actions of the following type:
 - Development of the sub-national governments' potential by means of effective fiscal decentralization models and transfer of powers.
 - Development of the sub-national governments' potential by adopting good administrative, fiscal and financial management practices, amongst which effective fiscal management of local and municipal taxes will be included, and administrative simplification.

⁴⁹ The operational development would be similar to that of the municipal programs, with the observations made below, in section *c*).

⁵⁰ Previous in a logical, not a temporal, sense.

- Development of the municipalities, in their aspect of basic service providers, by means of management modernization, and by having recourse to externalization, privatization, etc. of municipal services, linked to an implementation of good payment habits due to the effective cost of the services provided.
2. A stage of local strategic planning and promotion of social consensus. This phase has components of study, organizational and/or institutional development, identification of projects and encouragement of local dynamism.
 - Promotion of processes of strategic reflection on local competitive development capacities, identification of the competitive advantages, the opportunities which exist and the strengths and weaknesses of the local productive systems. In a local development model it is necessary to set collective goals which will serve as a guide to the process and for the resulting vision to be shared as widely as possibly by the different local agents⁵¹. Therefore, the creation of conditions for public-private consensus is vitally important. The goals set will serve to evaluate the results and to periodically adjust the actions in accordance with their efficiency, or the goals themselves in accordance with the new circumstances.
 - Institutional development and development of points of encounter between the local agents, as a previous step to the formation of collaboration networks. This can result in the creation of an Economic Development Secretariat within the local governments responsible for the promotion of local productive activities, and in the larger local governments this will include a Strategic Planning office which will give backing and technical support to Working Committees, and follow-up during and after the carrying out of the Plan.
 3. The phase of putting the projects into practice, which includes investment in physical and institutional infrastructures, of a predominantly public nature or by public-private consensus for support to productive activities.
 - Creation of capacity for action within a minimum of institutionality, preferably dedicated or newly created, like the Local or Regional Development Agencies, which are the bodies responsible for providing promotional services (e.g. development of a local information system, promotion of local collaboration networks, acquisition and promotion of external relations, "marketing" of the territory, etc.).
 - Development of the local financial market, including where appropriate the creation of public-private financial instruments for regional development (e.g. investment funds, guarantee funds, local risk capital funds). The purpose of these funds is to participate together with other public and private, national, international and multi-lateral sources of financing in paying for business or infrastructure projects.
 - Investments in public physical infrastructure of an economic nature (highway administration, communications, sanitation, industrial town planning).
 4. The phase of developing overall business competitiveness by means of specific instruments. The need for an *ad-hoc* competitiveness program will depend on whether or not national programs exist in the country. If they do exist, the program must structure the means for achieving an effective link with the existing programs for competitiveness⁵² and business

⁵¹ See *supra*, section 2.5.

⁵² A complementary approximation to the local development strategy would mean the inclusion of a local development component in the programs for promotion of national competitiveness and business innovation, es-

innovation. In practice, this link entails actions for institutional strengthening (systems for information, training, counseling, etc.) which will allow monitoring of the national programs and assistance for increasing the possibilities of attracting funds.

- Human resource training, dissemination of new technologies, management improvements.
 - Business revitalization services: technical assistance for business diagnosis and strategic plans, formation of local business groups or clusters, supplier chain programs, provision of advanced services (advisory services for improvement, quality, marketing, exports), etc.
 - Creation of centers for services to companies, innovation centers, University-chartered technological development centers or others already existing in other territories.
 - Local physical infrastructure works which can be used by producing companies, e.g. developed industrial land, industrial estates, turnkey modular pavilions (accessible by renting with option to purchase), business incubators, technology parks, science parks⁵³.
5. Finally the local development program could (or should, according to the case in question) include a financial component in order to facilitate local entrepreneurs' access to credit for financing private actions and investments coherent with the territory's strategic plan. As with the previous case, this depends on whether private financing adequate as regards repayment period and cost exists, and it can be structured by agreements with private or public banks or by creating bank warranty lines facilitating the small developers access to existing lines of credit⁵⁴.

The diversity of requirements, times and starting situations across the American continent makes it recommendable not to adopt one single or rigid program but instead a *modular* program or with different phases, so that the completion of the previous stages (strategic planning, institutional strengthening, etc.) opens up the way to the following stages.

c) For which clients

By definition, the direct recipient of the *integral* program can be any SNG. Territorial dimensions apart, three types of SNG can be distinguished:

establishing points of connection which would serve to articulate the national measures to the territory's institutional and productive environment. In practice this means both an additional valuation of projects included within local development processes and a system of dissemination of information qualified through local development entities.

⁵³ The typology is varied and should be adapted to the dimension, capacity and needs of the local productive fabric. Smaller or rural municipalities will be content to own pavilions in which traditional non-industrial activities are carried out. A metropolitan environment with universities and innovating businesses can aspire to a technology or science park.

⁵⁴ Often, the territorial distribution of the credit lines is unequal, due to the differing introduction of bank offices, amongst other reasons. Nothing contributes more to the frustration of the business sector than attempting to perform the strategic guidelines of a regional plan and coming up against the inexistence of medium-term credit for financing the precise investments. The private projects can be of an important dimension. In the Petrolina/Juazeiro integral development area (Brazil) the development of irrigated fruit-growing opened up enormous possibilities of production for export which needed heavy investment for its commercialization in the demanding European and North American markets: the plant for sorting, heat treatment, packaging, cold storage and dispatch of mangoes promoted by the Mango and Mango By-Product Producers' Co-operative of the State of Bahia (COMANBA) required an investment of 2 million US\$.

- SNGs with legal authority (States, Provinces, etc.)
- Municipalities of an urban character and their clusters (metropolitan, regional, district or micro-regional consortia, etc.)
- Municipalities or communities of a rural nature.

There is no particular sense in differentiating according to the size of the territorial area as the type of actions will depend more on the situation and will be included in the phase of diagnosis and strategic vision.

States and Federal Government Provinces should however be differentiated between, as their management is much more complex⁵⁵, and includes: (i) the design of state or provincial competitiveness programs; (ii) the design of their own decentralization policies regarding their municipalities, and (iii) the local development promotion taking place through them.

It is desirable that the *client* sub-national governments themselves are the **borrowers** from the Bank, a circumstance which at present is only possible in a small number of countries, depending on what is stipulated by their constitutions⁵⁶. It would not appear to be an ideal starting point when the decentralized program is negotiated through the national State, even if its authorization is still necessary –and will be as long as the sovereign guarantee continues to be required for the operation to take place. At worst, the executor of the program should be the SNG.

However, this procedure is only feasible for the SNG from a certain dimension upwards. The dividing line is the size which allows an efficient unit of management for the Bank's structure, which could be situated at above a million inhabitants.

As an alternative, the Bank can design and contract standard or *master* programs with a local wholesale agent, except for the entities of greater standing (States in Mexico or in Brazil, Provinces in Argentina, municipalities of over half a million inhabitants), which would keep the total amounts and the number of clients much more in line with the present management system.

This form exists in practically all the countries in the continent but possibly requires a transformation of its *modi operandi* in order to ensure a suitable interface with the final clients. Entities such as the Nordeste Bank in Brazil, which characteristically combines its function as a public development bank with that of a **Regional Development Agency**, would totally fulfill these requisites. The

⁵⁵ We must also remember that the dimension (and complexity) of many federated states exceeds that of independent countries in the continent.

⁵⁶ Among the programs reviewed in this study is the case of the Argentinian Provinces (e.g. Córdoba) and also that of the Brazilian States (e.g. Paraná, Pernambuco). In Brazil the **municipalities** can also be borrowers: this is the case of Porto Alegre, with a loan of 76.5 million US\$, while in the Argentinian municipalities' development program, the municipalities are sub-borrowers. In all these cases the borrower is also the executor (with some differences: the borrower is *the province* of Córdoba and the executor is the *government* of the province, through an accredited organization, e.g. the "Coordination, investment programming and financing organization". In Mexico, NAFIN is the borrower in the labor market modernization program, even though the executor is the Labor Secretariat, and BANOBRAS the executor of the FORTEM institutional strengthening program. In the rest of the cases the borrower is the national Government, and it is they who provide the sovereign guarantee. The Bank's sub-national strategy document advises making continued use of this, although a proposal is being studied which will enable these operations to be carried out with resort to other guarantees.

various **Social Investment Funds**⁵⁷, however, would require a radical transformation of means and of criteria.

The same thing happens with **Public Banks** which act as second-floor banks in credit intermediation and which would have difficulty in fulfilling this role with regard to production stimulation programs. The solution could be in a certain triangulation of the operations, involving a financial institution⁵⁸ and a regional development entity which would provide the *technical guarantee* for the operations.

In any case the different components may also have different executors, separating training, municipal or company financing, assistance to strategic planning process, etc.⁵⁹, with a national purposely-created organization as the executor, e.g. a National Local Development Plan⁶⁰.

d) With which instruments

The Bank's strategy rightly speaks of the use of funds from the IADB and the MIF. The first of these would channel the credit operations and the second would provide non-returnable financing, e.g. for financing precise technical assistance in the initial stages of consensus and formulation of the regional strategic vision in the projects of a more novel or strategic nature. Given that the financing of private productive investments must be covered, it would be a question of also incorporating the Inter-American Investments Corporation to the project with its loan instruments and holding of shares. This recommendation is coherent with the Bank's strategy of giving a response which is "*as integral as possible*".

The investments in infrastructures and economic and productive services require long-term financing against the guarantee of fees (in the case of services) or future tax revenue. The human resources programs and other forms of support to local promotion will require medium-term financing through loans for innovation. Institutional strengthening and strengthening of technical assistance to the processes, and for evaluation of the programs' results, require technical cooperation credits.

Eventually, the best clients will not need to resort to international financing lines (of the IADB type) and will be able to cover their needs by means of national financing institutions as these develop the necessary financial products, particularly in terms of repayment terms, or even by resorting directly to capital markets. The ease with which these issues can be placed will grow as the pension funds and other long-term institutional investors become extended and consolidated⁶¹. At present, however, the possibilities of placing international issues are limited to a very small number of candidates, as very few sub-national governments are rated by international agencies, except in Mexico⁶².

⁵⁷ The local development programs referred to above are managed through FISDEL in El Salvador, FISE in Nicaragua, FHIS in Honduras and FONCODES in Peru. In Colombia FINDETER is the borrower and the executor of the municipal development program (60 million US\$).

⁵⁸ Which would not have to be public in future, in the same way as the European Investment Bank channels its credit lines through private European banking.

⁵⁹ In Mexico the FORTEM, whose borrower is BANOBRAS, has two different executors: BANOBRAS is in charge of the credit line, while the Finance Secretariat manages the quick disbursement component.

⁶⁰ Like the National Plan for Alternative Development (PLANTE) in Colombia.

⁶¹ The reform of the pension systems in Latin America is an important impulse in this direction.

⁶² Mexico stimulates qualification **by two qualifying agencies**, e.g. through the FORTEM program. Standard and Poor's has qualified 14 cities and 18 states (although only for issues in local currency), as compared to

ANNEX I: LANDMARKS AND RESULTS OF THE LOCAL DEVELOPMENT CASES ANALYZED

	Scope- /initiative/- agents	Landmarks in the process	Results
1. Antioquia	Department. PRO-ANTIOQUIA The universi- ties.	Antioquia Vision XXI (1985-1992). Antioquia Convergence and Develop- ment 1995. Strategic plan 1998 Institutional development for execution of the Plan: PLANEA (Departmental Government), IDEA.	Promotion of a culture of strategic visions Lack of operative results. But the departmental vision served as a reference point for the actions of other in- stitutions (Medellín Strategic Plan, Business Devel- opment Center, Business Incubator...)
2. Cajamarca	Provincial and regional.	Provincial Consensus Steering Commit- tees (1992-1998), with no ad-hoc institu- tionalidad, Cajamarca Sustainable Development Plan. Similar actions in other districts of the province. Process discontinued, although the ex- ample spread to other municipalities in Peru. COIM 1999-2000 → 2010 Master Plan for Regional Development. This had leg- al power but no resources. A Regional Development Office was created to guide the operative phase of the plan in other government depart- ments. Process held up by the political transition. Very poor financing capacity of the local governments. Ineffective decentraliza- tion (1998).	Large number of consensus initiatives in the region, which contributed to providing the Chamber of Com- merce and the University with a more active role. In the competitiveness area, PROMPYME and PRO- COMPETIR stand out; and in the rural development area the greater articulation between NGOs. Few visible results: the Assembly's Competitiveness Center, 1998, Cajamarca Services Center (rural devel- opment), with highly operative programs and specific solutions. Contributed to the process of democratization of local power and to the consensus and coordination of insti- tutions (NGOs and others)
3. Córdoba	Municipal.	The city decided to promote its own economic development: Córdoba Strate- gic Plan 1995-2000. Participative planning, shared future with public and private actors. 200 or- ganizations participated in working committees. The municipality's Under-secretariat for Economic Development was cre- ated.	Agency for the Economic Development of the City of Córdoba (municipality and various Assemblies). Its action was centered on the MSMEs Business training bonuses for companies with less than 20 employees. Business incubator (Municipality + 2 universities) Difficulties or lack of coordination with the provincial and national government. The single-party vision was not overcome. The private sector did not take on real prominence. The vision of the production chain was lacking and the business chambers were not really involved.

two cities and 11 autonomous communities in Spain. Apart from Mexico, Argentina (with the municipality of Buenos Aires and the provinces of Buenos Aires, Córdoba and Mendoza), Brazil (Rio de Janeiro) and Colombia (Santa Fe de Bogotá) also figure. The qualification of the SNG is at best equal to the qualification of the sovereign debt.

	Scope- /initiative/- agents	Landmarks in the process	Results
4. Greater ABC	District-level. Highly-motivated municipal governments. Highly industrialized area. High institutional density. Trade unions. Multi-national companies	Greater ABC inter-municipal consortium (1990) for joint planning. Automotive industry sector chamber (1992), tripartite. Citizens' forum (1994). Greater ABC Regional Chamber (1997). Economic Development Agency in 1998, responsible for managing the Strategic Plan.	Regional Arrangement 1997. Economic Development Agency created, Plans for sectoral promotion, Employment Observatory, works. Regional Arrangement 1988. Technology Park, Guarantee fund, Furniture design center, transport plan created. <i>Banco do Povo</i> in the Prefecture of Santo André Creation of regional identity and collaborative spirit to solve the problems Political maturity: large businesses and trade unions, municipalities of a different political leaning Positive incorporation of the vision of a production chain Development of business information System.
5. Jalisco	State-level	Decentralization process: Greater transfers to the State and from the State to the local governments. The State was regionalized (1997 Plan) and plans were made for the regions. COPLADEREG (1998) Territorial criteria were introduced in the application of an incentives policy. Effective room was made for consensus with the business sector: CEPE (State Council for Economic Promotion) and others.	Policy of consensus with the private sector which resulted in their presence in numerous business promotion organizations: CEPE, CEJALDI, JALTRADE, etc. Programs for company clusters, supplier development, industrial parks. Effective link between the Universities and Technology Centers and training with the companies Administrative simplification Very positive evolution of economic indicators. Greater relative growth in the non-urbanized area.
6. Nordeste	District-level. Initiative of the Nordeste Bank as a development agent. Antecedent, UNDP program.	Action carried out through social mobilization (participative management) with no formalized institutional support except for a Manager, a Local Technical Team and an Articulation Team. The BNB put its network of offices, its itinerant offices, its <i>beacons for development</i> and the Municipal Development Committees at the disposal of the process. Carrying out corresponded to the holder of the authority.	Investments in production processes. BNB financed business projects (BNB) Channeling of public investments (irrigation, communications, etc.) Numerous training programs.

Landmarks and results of the local development cases also referred to (cont.)

	Scope/initiative	Landmarks in the process	Results
7. Buena Vista	Municipal: 11,390 inhabitants. Much poverty. Exploitation of the Natural Park (1984) and the Natural Integrated Running Area.	Confluence of processes: decentralization (1994), and people's participation (Watchdog Committee). Local economic development taken on in 1997. National "Productive Municipality" policy. Municipal leadership 1997-2000.	Private investments (hotels) and creation of employment (local guides, hauliers, craftsmen). Consultative tourism council, with participation from private businesses. Lack of financial and human resources, lack of support from other administrations. Politicization
8. Ceará	State-level, 7 million. "Young Entrepreneurs" (Movement for change) won the elections in 1986	1991 Cooperation Agreement with the private sector, (businesses, university, consultants, etc.). Totally informal systematic meetings for discussing subjects of interest. Regional pacts and sectoral and thematic forums were created. Shared Future Vision Ceará 2020 Aridas Project Strategic Plan for the metropolitan region of Fortaleza (initiative of the business unions, joined by the municipalities, and social movements)	Programs came out of this (pro-cotton, granite park, poultry farming, urban trade in Fortaleza..) → Development of social capital Contributed to the local corrections obtained by macro-adjustments
9. IDEB	Provincial. Created in 1996 for training and technical and financial assistance to SMEs. Directory with private participation.	Decentralized design (local IDR centers in 37 municipalities) and business participation. Functioned as a development bank. Initially, criteria for offer. Then, criteria for demand, etc. Emphasis on latent demand, excluding the larger, more sophisticated SMEs. Search for complementariness with other programs of other institutions, not reciprocated...	50,000 companies benefited. Suffered from the low level of cooperation of other institutions.
10. Nueva Vizcaya	District-level. <i>Private</i> initiative. Extended to 21 municipalities	Phase I: Creation of the International School of Economy; Study of the region's competitive advantage; Creation of the Cideyt. Provision of non-financial services. Phase II: Diagnoses and consultancy: 100 companies Phase III (with MIF): expansion to 600 companies Training and empowerment.	Institutional development (Cideyt and other centers) University-business links Diagnoses and consultancy. National Program Territorialization Networks (CIMO) Creation of business centers in the municipalities. Collaboration with these.
11. Porto Alegre	Municipal. Capital of the State of RGDS. Main trade and services center of the Metrópoli state, 24 municipalities. Highly industrialized	Participative budget in 1989. Included territorial plenary sessions (16 areas) and 5 thematic plenary sessions. <i>Mais-cidade constituente</i> for the strategic vision. The Local Government had a Planning Cabinet. Two main guidelines: to favor technological innovations and to develop micro-businesses.	Initially urban clean-up and conditioning works. It then led local economic development, with six typical economic promotion programs. In 1993 the Portosol Bank was created (Local Govt., State, Traders and Young Entrepreneurs) for loans to micro-businesses. Institutional development: Trade Point, Portosol ICC, Technological Business Incubator, (IETEC), Restinga Industrial Park... with public-private participation.

	Scope/initiative	Landmarks in the process	Results
12. Rafaela	Municipal/district level	<p>A long history of strong institutional development: Rural Society 1906...School of Mechanics, 1912; INTA Research Station 1926; Commercial and Industrial Center of Castellanos Dept., 1932, Chamber of Foreign Commerce, 1978)...</p> <p>From 1991 the municipality assumed prominence with the creation of the Economic Programming Secretariat, which encouraged relations with entrepreneurs.</p> <p>Regional Development Foundation, 1992, a young entrepreneurs' initiative.</p> <p>Rafaela Strategic Plan 1996</p>	<p>Business Development Center, 1997. Financial and institutional sustainability.</p> <p>Development of cooperation and confidence as opposed to trade-unionism. Insufficient coordination between institutions.</p> <p>Training and Local Development Studies Institute, 1997.</p>
13. Rancagua	Municipal, 213,000 inhabitants. Mining (copper) and agroforestry, fruit for export	<p>Municipal diagnosis in participative councils, 1993. In 1994, "communication plan" "friendly, living city".</p> <p>1995: municipal surveys to determine priority areas</p> <p>1996: <i>Rancagua emprende</i></p> <p>1997: The program took on new business generation functions, also in 1998 (Labor information – created in 1982)</p> <p>In 1998 it took charge of the Casa del Pequeño Empresario (Small Entrepreneur's Office), created in 1992, the embryo of a future Business Development Center.</p>	<p>Business incubator (1997).</p> <p>No adequate coordination with regional and state authorities.</p> <p>The educational and technology centers had a weak connection with the productive system.</p> <p>Offer of services lacking (consultancy etc.)</p>
14. Sierra de Cuchumatanes	District level. Guatemala Government Initiative, 1995-2000. Work with 15 formal organizations and 120 <i>interest groups</i>	Strategic training plan, 1995: Local resource training to allow the continuity of the process once the program had finished.	<p>Training of rural extension workers and managers, and auxiliary accounting officers for the producers' associations.</p> <p>Technical assistance and agricultural training, micro-credits and organization for commercialization.</p>
15. Sula valley	District level	Strategic plan (project): Initiative of the Chamber, the Business Council and the municipality of San Pedro. (<i>Sula valley Forum. A shared commitment</i>). The problems with the region's economic and social development were faced.	<p>Supra-party civil prominence. Aimed to involve other government authorities, universities, etc.</p> <p>Asserted claim to municipal prominence within the framework of the country's decentralization – guarantee of democracy. Lack of resources (decentralization law not complied with).</p>
16. Villa El Salvador	Municipal, 324,000 inhabitants	<p>Occupation legalized in 1971.</p> <p>The Industrial Park did not get started. From 1986 to 1991 its management was recuperated for the Villa. Further breakdown and from 1995 a Local Development Office and Business Development Center were created.</p> <p>Association of Small and Medium-sized Industrialists of Villa El Salvador.</p> <p>Autonomous Authority of Industrial Park was public-private. Great support from and involvement of NGOs (and UNIDOS)</p>	<p>Over 12,000 jobs created in the Industrial Park. Intense sub-contracting. Live-work units.</p> <p>The discontinuity of the project reflected the fact that some governments and some mayors had not had the same vision of local development.</p> <p>The municipality lacked technical capacity to support small producers.</p>

ANNEX II. BIBLIOGRAPHY

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