Local economic development and
decentralization in Latin America

Francisco Alburquerque,
in memory of Gabriel Aghón

This article describes the work done under the ECLAC/GTZ project directed until his death by Gabriel Aghón from the ECLAC Economic Development Division. It shows that the emergence of local economic development initiatives is not only the consequence of the decentralization processes under way in the different countries of the region but is the result of a more complex set of factors which have arisen in the local areas themselves and have given rise to the mobilization and action of public and private local agents. The project carried out almost thirty case studies in seven countries of the region and is one of the most extensive studies made since local economic development initiatives began to be made in Latin America.

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I

Laying the foundations for the local economic development approach

As is generally known, the territorial (or local) nature of economic development has long suffered from a situation of theoretical marginality. For some authors, however, the crisis of the Fordist mass production model has facilitated the theoretical rediscovery of flexible forms of production at the local level, although these have in fact always been present as forms of industrialization in economic history. Local economic development should not be seen, then, as a post-Fordist industrialization model opposed to the functioning of big business. In reality, the local economic development approach basically stresses the local values of identity, diversity and flexibility which have existed in the past in forms of production which are not based only on large-scale industry but on the general and local characteristics of a given area.

Thus, the main cause of the theoretical marginalization of the territorial or local nature of economic development is to be found in the simplification of this process of evolution made by a large proportion of economic thinkers by abandoning the local dimension and taking as their unit of analysis the enterprise or economic sector in the abstract, that is to say, separated from their local environment. In this way, the local area has been reduced to a uniform and undifferentiated space, and the central analysis of economic development has long been dominated by the concept of economies of scale which are internal to the enterprise: an aspect shared by the main lines of economic thinking.

Another consequence of this analytical approach is the reduction of the concept of economic development to industrial development based on large vertically integrated enterprises and linked with urbanization processes. This form of reasoning, which is still very much alive, was modified, however, in the late 19th century by Alfred Marshall (1890), who examined the geographical concentration of industry and proposed that the unit for the study of economic development should be a locally-based entity. Marshall's theory of industrial organization and his concept of organization (which cannot be reduced solely to business capacity) thus provide a fundamental theoretical base for the local economic development approach, by restoring the local area as a unit of analysis. Marshall's theory of industrial organization thus runs counter to the neoclassical theory of industrial location, since the central role play by the enterprise in the latter is replaced in Marshall's theory by the local environment and the cluster in which the enterprise is located. Likewise, internal economies of scale linked with the enterprise-based dimension are now accompanied by external economies generated by local interdependences.

As we can see, this approach to industrial organization is a structural or systemic statement, since it is not possible to consider a part of the system in isolation, ignoring the relations of interdependence which exist between that part and the whole in which it is integrated. Organization is not just business capacity, but also the interdependence which exists within the enterprise, between the enterprise and the rest of the group of enterprises of which it forms part, and between those two aspects and the area in which the local system of enterprises is located. In short, it is not the enterprise alone that competes, but the network and local area in which it is located. Consequently, in the terms expressed by Marshall, the economies achieved in production are not just the internal economies of the enterprise considered in isolation; there are also "general external economies" (of the group of enterprises of which it forms part) and "local external economies" corresponding to the specific local area in which it is located (Sforzi, 1999). Knowledge, which is at the centre of the definition of local external economies, is the most important element in production and sometimes becomes an asset shared by the local community as a whole. Likewise, local external economies also include the existence of local linkages with auxiliary firms, or the complementarity between the local labour market and production system. All this forms part of a "local environment" favourable to the production efficiency and competitiveness of the local production system.

Local production systems are thus the local referents or units in which production economies within firms merge with local external economies; this thereby goes beyond the analysis by types of firms, as the important thing is the interaction of the various local economies. Consequently, as well as the economic relations and production techniques, other essential factors for local economic development are social relations and the development of a business culture, the formation of associative networks among local actors, and the creation of what is now called "social capital" (Kliksberg and Tomassini, 2000).

Although it will not be possible in this article to analyse in detail the main references and basic contributions behind the local economic development approach, special mention may be made of the "rediscovery" by Becattini (1979) of the notion of "industrial districts" put forward by Alfred Marshall (1890) and the identification of the local area as the unit of analysis instead of the enterprise in isolation. Since there has been a flow of different contributions which, from different angles, have been building up a more integral view of development which incorporates the local approach as one of its main sources of theoretical and conceptual support.

From a more pragmatic standpoint, various proposals have been put forward by the Organization for Economic Cooperation and Development (OECD, 1999), the International Labour Organisation and, in particular, the European Union on the new pillars of local economic policy: the promotion of rural development and sustainable development. Finally, mention must be made of the development of decentralization and the reform of the State and the implementation of processes of modernization of the public administration and political management in order to achieve active participation by society at large in development processes (Haldenwang, 2000).

II

The advance of democratization and decentralization processes

The advance of the processes of democratization and decentralization, with a consequent increase in the functions of local public administrations, have obliged those responsible for political and technical policies to seek approaches and proposals suitable for dealing with the growing problems and demands of the population (Affonso, 2000). This has become necessary not only because of the need to provide concrete and effective responses to the local population as a whole, but also because of the shortcomings or limitations of centralist and sectoral policies and of the old assistentialist approaches in regional development and social policy. Thus, local development strategies have been gaining currency as an approach with a strong pragmatic component, a "top-down" concept, and a more integral vision of the different facets or aspects of development, with a horizontal presentation of the latter which demands that the different development policies should have links with the local level.

In this sense, it should be recalled that the economic crisis which broke out in the developed countries as from the end of the 1970s had a pronounced impact on many local areas, which suffered a deterioration in their economic and social conditions. In these circumstances, the measures designed by the central governments were generally too generic and ineffective, since the distance and vertical approach of the latter prevented them from taking account in them of the specific features of the different local production systems. Furthermore, the growing process of transnationalization, globalization and external openness of the economies has been showing even more clearly the enormous heterogeneity of the different local production systems and their greater exposure to the demands of the current phase of technological transition and structural change (Alburquerque, 2000).

Some authors, such as Vázquez Barquero (2000a), have described local economic development initiatives as being "spontaneous", since they were not induced or promoted from the central level of the State, which was more concerned at that time with coping with the demands of macroeconomic stability and the crisis in the traditional sectors. An analysis of the links between the decentralization processes in

Latin American countries and the emergence of local economic development initiatives also shows that the latter have been arising because of the tension caused by the necessary adaptation to the demands of the crisis and economic restructuring, in spite of the unfavourable context prevailing in the countries of the region. At all events, there can be no doubt that the advance of decentralization processes is opening up more room for the deployment of local development initiatives, while the practical experience and reflections on local development strategies represent an innovative contribution which has encouraged a more integrated view of development itself (Vázquez Barquero, 2000b). At the same time, the greater participation of local administrations in economic development and the efforts to increase productive employment have involved a redistribution of responsibilities and functions in the economic field among the different local levels of the public administration.

The boost given to public-private cooperation and the pursuit of strategic consensuses among local economic and social actors for the design of local development strategies have brought about the application of a form of shared economic development which is not based solely on directives from the public sector or simply guided by the free market. In this way, the search for an intermediate space between the market and the public authorities, that is to say, a space at the mesoeconomic level, has served to define a new way of policy-making, and especially of economic development policy-making. All this has made it possible to link together different processes in a virtuous circle of interactions between the advance of a more participative form of democracy and the decentralization of responsibilities at the subnational levels, in order to ensure the assumption of responsibilities, capabilities and resources by local bodies and actors and thus promote local development strategies.

III

The origin and objectives of local economic development initiatives in Latin America

One of the main conclusions which may be drawn from an analysis of local economic development initiatives in Latin America is the incipient nature and small number of the "best practices" existing in the region. The analysis does, however, reveal some examples which, although they cannot be included among the "best practices", are nevertheless interesting initiatives because they provide some useful lessons to further the collective learning process in this field.

There is no single cause lying at the origin of the local economic development initiatives implemented in Latin America. Many of those initiatives arose as a reaction to local economic crisis situations and the lack of suitable policies emanating from the central level of the State to deal with them. The industrial crisis which gave rise to the "Gran ABC" initiative in the state of São Paulo is a good example of this (Leite, 2000).

Local economic development initiatives have also had to tackle economic problems at the municipal level which are reflected in growing demands by local communities. After the first popular election of mayors in 1988, the municipality of Pensilvania, in the eastern region of Caldas (Colombia), began to play an active role in the promotion of local economic development, while also promoting improvement of the road infrastructure, expansion of the coverage of public services, greater access of the population to health and education, and the implementation of programmes and projects designed to generate source of employment through support for micro-enterprises (Maldonado, 2000b).

In the same way, the restoration of democracy at the municipal and the local level in general has been accompanied by greater demands for the local public authorities to present concrete programmes and proposals to the inhabitants on the substantive issues of the development of production and employment at the local level. In some cases, the emergence of local economic development initiatives has been facilitated by an intelligent process of institutional deconcentration promoted by some central-level bodies, as in the case of the Solidarity and Social Investment Fund (FOSIS)

in Chile, where a leading role has been given to local teams so that they can act as local development agents (Cáceres and Figueroa, 2000).

In Brazil, the need to form a collective front to deal with the "fiscal war" situation acted as a powerful stimulus for the municipalities of the Valle Medio Paraiba region of the state of Rio de Janeiro to take an initiative which culminated in the creation of a Forum of Secretaries of Planning for the collective formulation of measures to be taken at the municipal level (Coelho, 2000b). Also in Brazil, in the state of Acre, the Municipal Prefecture of Rio Branco promoted a project for the establishment of an agro-forestry pole in the rural surroundings of that city to meet the needs of the settlements of peasant families displaced from rural areas by big commercial agricultural projects (Coelho, 2000a). Finally, there is the example of Villa El Salvador (Peru), where the initiatives taken had their origin in the plans designed by the central government to promote self-build activities in the areas of housing and urban infrastructure, instead of the traditional housing programmes subsidized by the State (Benavides and Manrique, 2000).

There are thus two types of tensions which incentivate local economic development initiatives "from below". One is the tension caused by the development of democracy itself and the direct election of the officials responsible for the different local levels of public administration (municipalities, provinces, regions or states), which makes it necessary to meet the demands of the public regarding the basic issues of production development and employment in each local area. The other is the tension caused by the general situation of crisis and economic restructuring, which impels the actors in the private business sector to incorporate modernizing elements and processes of adaptation to cope with the new demands in the field of production and the higher levels of competition in markets. In addition to these two types of tensions "from below" there is another "top-down" process corresponding to the advance of decentralization and reform of the State at the central level in the countries of the region. This does not yet have a complementary relationship with the aforementioned processes emanating "from below", but it is clear that the advance in decentralization should be capable of creating favourable environments for the promotion of local economic development initiatives.

At all events, it is important to note that the most advanced decentralization processes, that is to say, those which include the direct election of all levels of local representation of the citizens, from the mayoral to the regional level, and which transfer resources and decision-making powers to the subnational governments, are much more consistent bases for the promotion of local economic development initiatives. In the state of Jalisco (Mexico), the decentralization process did not stop with the transfer of resources and powers for the improvement of municipal management but also incorporated a clear productive dimension, by seeking to strengthen the medium-sized cities of the state and to promote traditional industries and local SMEs. Thus, it is not merely a question of fiscal decentralization but of reorganization of the state by strengthening its different levels of government and creating spaces for dialogue, participation and consensus-building among the different local actors (Ruiz Durán, 2000a).

In short, among the main objectives of local economic development initiatives in Latin America, special mention may be made of the following:

- Enhancement of the endogenous resources of each local area by seeking to promote diversified production activities and encouraging the establishment of new local enterprises.
- Organization of local networks among public and private actors in order to promote production and business innovation in the local area.
- Establishment of inter-municipal consortia in order to increase the efficacy and efficiency of local development activities.
- Search for new sources of employment and income at the local level.
- Promotion of scientific and technological development activities at the local level.
- Creation of new financing instruments to meet the needs of local micro- and small enterprises.
- Progress beyond the limitations of the assistentialist approach implicit in social investment funds and anti-poverty programmes.
- Incorporation of city marketing policies to promote systemic local competitiveness.
- Search for strategic accords on environmental goods and sustainable development, like the sustainable development strategy adopted in Buena Vista, Bolivia (Salinas, 2000a).

IV

The basic elements of local economic development initiatives

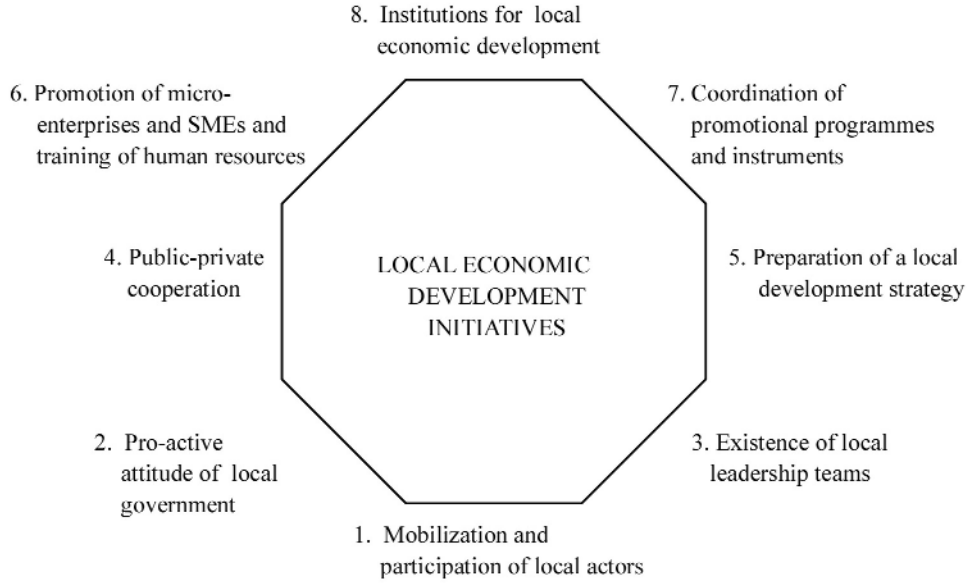
A local economic development initiative is not just a project which is successful in a local area. It requires an institutionalized consensus among the most important local public and private actors around a common development strategy (Ábalos, 2000). Moreover, a complex sum of promotional instruments can never take the place of the set of local institutions needed for economic development (Falabella, 2000). Creating instruments from the central level which can be used by the different local areas is not the same as impelling and promoting a more important role and greater capabilities of those areas to make better use of their own endogenous resources. Some of the cases outlined in this project, such as those of Colombia (Maldonado, 2000a) and Mexico (Casalet, 2000), are quite eloquent in this respect, since they still reflect a centralized design of promotional programmes and instruments instead of the local design of measures to promote economic development.

This limitation is accompanied by a basically assistentialist approach to micro- and small enterprises in almost all the countries of the region, which still do not have locally-designed policies for the promotion of these kinds of enterprises, in spite of their numerical importance, their widespread presence, and their importance from the point of view of generation of employment and income. At the same time, the degree of preparation and consolidation of the strategic capabilities of the municipality and its capacity to recognize the real economic, social and cultural situation of the local area, the capacity for maintaining a dialogue with the community, skill in planning promotional actions, the capacity to coordinate and link up development actions with other economic, social and political agents, and the capacity to present proposals to other levels of government and negotiate with them are likewise key elements to permit the municipalities to learn how to think out the type of development they need in order to solve critical problems such as the lack of productive employment and the modernization and diversification of the local production base.

The set of basic elements which define local economic development initiatives and form the fundamental pillars for their support are shown in figure 1.

FIGURE 1

Basic elements of local economic development initiatives



Many of the local economic development initiatives in Latin America have made considerable progress in a number of the components shown there. The weak points of those initiatives may be identified through the absence or weakness of some of those components.

The first thing that leaps to one's attention is the importance of the mobilization and participation of the local actors. This calls for the construction of community social capital, which, in turn, requires the promotion of a pro-active, enterprising attitude, far removed from the kind of approach which relies on subsidies. At the same time, a local economic development initiative requires a pro-active attitude by local governments (and regional authorities in general) to the development of production and the generation of employment. This means that local public authorities must assume new functions that go beyond their traditional roles as providers of social, urbanistic and environmental services at the local level.

It must be stressed that the regional identity, like social capital, must not be understood as assets which already exist in the area as the result of the combination of pre-existing geographical or historical factors, but as an intangible asset which can be constructed locally by generating spaces for the building of consensuses and confidence among actors to tackle the common challenges they share. In this sense, the participation of the different local actors in the discussion of local problems greatly assists this process of construction of a shared local identity and, ultimately, the social construction of the region. The Cooperation Pact in the state of Ceará (Brazil), which was originally established as a forum for discussions between entrepreneurs and the state government on the most important issues for local society, ended up by being extended to the remaining sectors of civil society, thus forming a network of persons, movements and organizations interested in local development (Do Amaral Filho, 2000).

Likewise, the Strategic Plan for Rafaela (Argentina) made it possible in 1996 to open up a space for discussion by the whole of local society for the definition in a concerted and participative manner of the way the city's growth should be planned and the vision local society had of the city. As one of the projects in this Strategic Plan, late in 1997 the Institute for Local Development Training and Studies was set up; the purpose of this municipal body is to keep track of the changes in and evolution of the local community, working to train human resources and foster a set of cultural and socioeconomic conditions favourable to the development of the city and its region, in order to strengthen in this way the interaction between the State and local society and collaborate in the process of developing a new and different form of municipal management (Costamagna, 2000).

The local economic development programme of the municipality of Medellín (Colombia), for its part, incorporates urban and metropolitan infrastructure projects, as well as objectives connected with the creation of a new image of the city, thus complementing the programmes to support the competitiveness of local small and medium-sized enterprises (Londoño, 2000). Likewise, the municipality of Bucaramanga (Colombia) has made a decided effort to participate in furthering the competitiveness of the area by promoting the city of Bucaramanga as the "Technopolis of the Andes"; as part of this project it has opened up concrete spaces for action with the private sector, the Chamber of Commerce, and the Department of Santander and has promoted important joint actions (Vargas and Prieto, 2000).

Local governments are not always the initiators of local economic development processes, although in the medium term their presence in them is of fundamental importance for establishing the institutions that those initiatives require. Moreover, in democracy they are the most legitimate local public authorities responsible for calling together the different local actors and seeking areas of public-private consensus to further local economic development. It is therefore important that they should take the lead in fostering such processes of mobilization and participation of local actors and forming teams of leaders to ensure the continuity of the activities undertaken.

The main strategic objectives in the formulation of a local economic development strategy backed by a consensus among the main local actors are to make better use of the endogenous resources and to diversify the local production base through the incorporation of innovations based on high quality and differentiation of products and production processes; the incorporation of management innovations, and the introduction of the necessary social and institutional adaptations. The promotion of local micro- and small enterprises and the training of human resources in line with the innovation needs of the local production system are a fundamental part of this strategy too.

The local supply of business development services should include the training of human resources in line with the needs of the local production systems, both in order to modernize existing production

activities and to incorporate other activities which may be viable in the immediate future. For this purpose, it is important to have the capability of keeping track at all times of the real and potential needs of the local enterprises and the characteristics of the local labour market (Bernales, 2000). A local development strategy can sometimes be initiated through the local coordination of some sectoral development programmes and instruments which are defined at the central level but are to be implemented locally. For efficient coordination of different sectoral programmes designed at the central level, it is essential that the actions taken should be guided by the actual demand, that is to say, by the real needs to be satisfied, which must be identified and prioritized by the local actors.

Finally, local economic development initiatives must be institutionalized by reaching the necessary political and social agreements in the corresponding local areas. Local pacts which are above political party considerations and enjoy the fullest possible participation of local actors should be sought, in order to endow them with the highest possible levels of stability, regardless of possible political changes. The private business sector needs to be represented in local development institutions in order to avoid the uncertainty arising from frequent changes in the local political representatives, while the presence of the public authorities at the head of the local development institutions seeks to endow the entire process with a lasting medium- and long-term perspective, which is not always possible when only short-term business benefits are sought.

Electoral disputes and party differences should not be allowed to interfere with the implementation of the local economic development initiatives agreed upon by the different social and economic actors. The decision to form a mixed organization to execute the agreements on local economic policy and improve the competitiveness of the city of Córdoba (Argentina) was based on the conviction that it was necessary to overcome the traditional separation between local government and private enterprise (Marianacci, 2000). For this purpose, it is essential that the institutional arrangements for such initiatives should include the signing of "local area pacts" for local development that rise above party considerations (D'Annunzio, 2000). Local investments for development, whether tangible or intangible, need longer lead times than those connected with electoral and political cycles. This is why it is so necessary to call upon the local political and social forces to involve themselves in these initiatives, so that electoral contests, although perfectly legitimate, will not weaken the processes of local economic development and generation of employment.

Local economic development thus calls for decided action by the local public bodies, which means that this dimension must be incorporated in the current programmes for the strengthening of local governments. Decentralization cannot be limited solely to improving the capacity for the efficient management of the resources transferred to local governments and modernizing municipal management. These tasks are extremely important, but the modernization of local administrations must also include their training for their new role of promoters of local economic development, so that, together with the private actors and the rest of local civil society, they can construct the necessary innovative local environments for the promotion of production and the development of the local structure of enterprises. The local development strategy of Villa El Salvador (Peru) was centered on the establishment of an industrial park for small enterprises, as part of the new population settlement, for which purpose it fostered the provision of common business services and suitable infrastructure (Benavides and Manríquez, 2000).

As part of their effort to promote local economic development, municipalities should also adopt efficient organizational practices, in order to modernize their management. To this end, they should undertake administrative modernization programmes and train their staff in order to improve municipal management. Adopting a strategic approach and an integral conception of municipal planning helps to visualize the context of which the city forms part and makes it possible to incorporate an intersectoral view of the various problems faced, thus going beyond an approach based only on physical and spatial considerations and viewing urban matters in all their social and economic dimensions. By investing in public works, municipalities give their area added economic value and enhance the competitiveness of the local production base. The urban services provided by the municipality are likewise linked with local economic competitiveness, since the quality of those services increases the attractiveness of the area for private investment. Thus, an important function of municipalities is to create the necessary conditions in terms of basic infrastructure and urban development services for the private business sector to take on its role as a producer of goods and services and a motor of the local economy.

V
Criteria for action

1. Construction of the local supply of business development services

A crucial question for promoting local economic development is the construction of a suitable local supply of business development services for micro- and small enterprises, including services in the fields of technological and market information, innovation in the fields of products and production processes, technical and business management training, cooperation among enterprises, marketing and quality control, and financial advice. Such services are always hard to reach for micro- and small enterprises located in the interior of the country.

It must be borne in mind, however, that in order to identify the underlying demand for innovation in the local production systems, made up mainly of micro- and small enterprises, it is necessary to take pro-active action on the supply side, in order to overcome the difficulties that this segment of business experiences in making known the circumstances that affect its production efficiency and competitiveness.

It is not possible, therefore, to implicitly trust that it will be the micro- and small-scale entrepreneurs themselves who will give timely signals in these strategic business development services markets. Even they are not always sufficiently sure of the future outlook for their businesses, not do they have the financial resources to pay for such services. Furthermore, the local supply of such services is not organized in locations close to the clusters of enterprises. In short, it is necessary to construct that market for business factors and development services through intelligent measures that will bring about the clear expression of the signals regarding the demand for business services which lies below the surface in the group of local areas.

In local economic development initiatives, there is a clear need for a local production development policy for micro- and small enterprises, in order to ensure their access to business development services. This means that business promotion policies cannot be of a generic nature, but must incorporate a local dimension. The quantitative importance of the micro- and small enterprise sector has led to the generic design of measures for application en masse, without taking account of special economic, local, technical or production-related features. The different conditions prevailing within the various sectors shows the need for different instruments and special targeting on the groups to which they are directed, however. The Articles of Association of the Regional Chamber for the Greater ABC Area,[1] in Brazil, note the fundamental importance of providing support for micro- and small enterprises because of their importance in terms of production, employment and income. In order to give due attention to this group of small businesses, however, a selective local policy is needed which promotes the strengthening of the production chains of the Greater ABC Area in particular, instead of the usual generic policies which involve a great waste of efforts (Leite, 2000).

In many countries of the region, local economic development initiatives are not given sufficient support in central government policy, in which priority is given to competitive integration within the globalization process, thus placing the internal linking of local economies on a secondary level. Nor have central public policies so far attached sufficient importance to micro- and small enterprises as the element which integrates and strengthens the domestic market, in spite of the importance of this segment of enterprises in terms of employment and income in all the countries of the region.

Business promotion policies must place emphasis on the importance of implementing specific programmes to strengthen the business skills of women, who represent a great potential within the overall group of micro- and small enterprises. In many cases, the border between the workshop and the home is quite vague and the conditions of work and production inevitably affect the family, which is not only a unit of consumption but also of labour and production (Benavides and Manrique, 2000). Specific programmes are therefore needed which are aimed at

[1] The Greater ABC Area is the name given to the group of three municipalities south of São Paulo –São André, São Bernardo do Campo and São Caetano– which form one of the most dynamic areas in Brazil.

persons who use their own homes as places of production. Through such programmes, women can receive technical, artistic and business guidance services, as well as information on legal aspects of production, details of new products, easier access to the existing lines of finance, and incentives and guidance for the formation of community workshops and product marketing facilities.

2. Local development and municipal development

Local development policies are not limited solely to municipal development. Sometimes the local area of action covers several municipalities with similar economic, labour and environmental characteristics. The frontiers of local production systems therefore do not necessarily have to coincide with the borders of the municipalities in question. Consequently, it is important to identify the appropriate units for action, by preparing special information systems for local economic development: a task which the various local initiatives should undertake sooner rather than later. The study of the production linkages and territorial location of enterprises and activities is of fundamental importance for formulating intelligent lines of action in terms of local economic development. The main objective is to identify and understand the production and marketing structure of the activities which are most important for the local economy; that is to say, the set of economic relations between producers, marketers and clients, together with the necessary support infrastructures, training and technological research centres, business services, and all the elements associated with the environment in which the various activities and enterprises involved in the different local areas are located.

This shows the desirability of addressing the challenges of local economic development jointly, through associations of municipalities, and ensuring intelligent and coordinated action among the different local public authorities at the municipal, provincial, regional and central levels. Likewise, although this may seem obvious, municipal development must extend not only to the urban centre of the municipality, but also to the whole population of the municipal area. This is a matter of fundamental importance when it is a question of meeting the needs of the population spread out in peasant communities, who are often ignored or excluded from development processes (Zubieta, 2000).

3. Local economic development: not merely the development of endogenous resources

In order to promote local economic development, it is necessary not only to make better use of endogenous resources but also to take advantage of the outside growth opportunities that may exist. The important thing is to find ways of endogenizing the favourable impacts of those external opportunities through a development strategy defined and agreed upon by the various local actors. Thus, local economic development initiatives must not be seen as closed processes confined to local markets and using only local resources (Benavides, 2000).

Some local development initiatives look for spaces of mutual benefits for both big firms and the local systems of enterprises, by seeking to promote subcontracting schemes based on quality and cooperation among firms. This shows the importance of starting negotiations to strengthen the economic relations between micro-enterprises and big firms, in order to go beyond the level of dependent sub-contracting. The Chihuahua Center for the Development of Suppliers, in Mexico, has persuaded outside agents to adopt a position of commitment to the development of local suppliers. There is a great deal of potential in this field, since the small enterprises of the region can link up with this effort with support from the training and advisory assistance programmes of the Autonomous University of Chihuahua, the Autonomous University of Ciudad Juárez, and the Chihuahua Campus of the Monterrey Institute of Technology (Ruiz Durán, 2000b).

Another form of participation by the private sector is through the granting of concessions for works and services previously provided by the local authorities. Thus, the concessions granted by the municipality of Rancagua (Chile) from 1993 onwards provide for the construction of infrastructure and urban equipment at no cost to the municipality, which thus obtains private resources for the execution of projects of social value. The process of awarding these concessions was endowed with the necessary transparency by the adoption of a set of rules and regulations on the granting of concessions (Muñoz, 2000).

4. Access to credit for micro- and small enterprises

One of the aspects which explains the lack of flexibility and relative uselessness of the existing instruments for the promotion of production activities has to do with the fact that since they are mainly provided according to traditional criteria on the profitability of the economic activities thus supported, this rules out many production units which do not satisfy the established conditions because they do not have bank guarantees, they have only a small annual sales volume, or they belong to the informal sector. It is therefore important to create local funds for the development of micro- and small enterprises, in order to overcome their difficulties in gaining access to medium- and long-term lines of finance. The Community Credit Institution (PORTOSOL) is part of the Local Economic Development Plan of the city of Porto Alegre (Brazil). This is an institution which was proposed by the Prefecture of the city but has been formulated and executed in collaboration with other private-sector local economic and social agents (Coelho, 2000a). Such a system of technical assistance and training, together with the provision of lines of credit, is of fundamental importance for consolidating and expanding projects by small producers which are given financial aid.

5. Promoting association and cooperation among micro- and small enterprises

There are many difficulties which hinder the full involvement of the private business sector in local economic development initiatives, such as the difference in interests, the small size of most local enterprises, and the unequal level of representation of the relevant business organizations. Likewise, the diverse activities carried on by these organizations and their sectoral approach, together with their traditional mistrust of local governments, also limit their participation in projects for public-private cooperation at the local level. Consequently, in order to achieve adequate incorporation of the business sector in local economic development initiatives, it is necessary to strengthen the institutional arrangements for the representation of trade and business associations and support changes in these bodies in at least two key aspects: the transition from a sectoral view to one based on the production linkages that exist, and the replacement of their usual lobbying approach by one that seeks to support and promote local production systems.

In order for the producers' associations to change, they must begin to support the firms they represent in matters such as technological development, market information, etc. At the same time, they must prepare themselves to take part, together with the local governments, in the definition of major regional development objectives and projects. Sometimes the situation is quite precarious in this respect, as there is not even yet a permanent means for the inter-institutional coordination of the actors. In this case, the immediate challenges are to promote encounters with the organized producers to discuss local economic promotion and assume responsibilities for it; to make producers more aware of profitable activities, and to provide joint support for the study of marketing possibilities that can make local economic initiatives viable.

6. The need to link the regional universities and scientific and technological research centres with the local production systems

The traditional generalist approach of universities has been overtaken by new developments, like so many traditional forms of transmission of knowledge. The need to train human resources capable of asking themselves good questions and not just memorizing answers that are already written down is increasingly obvious, in view of the rapid pace of change in the world of today. Likewise, more integrated forms of teaching are required. This also brings into question the content of many study plans, to say nothing of the excessive attachment of many of those plans to outworn views and their inability or unwillingness to adapt to the new realities. Above all, it is necessary to overcome as soon as possible the disparity between the supply of training offered by the universities and training centres and the innovation needs of the various local production systems. For this purpose, it is essential for the educational, university and scientific and technological research bodies to play an active part in local economic development initiatives. Through the decided action of the local actors it will be possible to build links between the supply of knowledge and its end-users or other sources of demand in the different local production systems.

In order to achieve a higher level of complexity and diversity in the local production system and, in particular, to train peasants in management and product marketing techniques, the initiative launched by the province of El Loa, in Chile, sought the collaboration of the universities in the northern region of the country, and they began to incorporate areas of training that will make it possible to achieve the economic sustainability of the various peasant production projects –production of goat cheese, for example– by exploring sales channels and supply strategies both inside and outside the region (Salinas, 2000b). In Colombia, one of the main aspects responsible for the restructuring of the Industrial University of Santander was the desire to establish closer links between that institution and the production sector of the city through the development of concrete projects in various areas, such as the feasibility studies for the creation of the "Corporación Bucaramanga Emprendedora" incubator for technology-based enterprises, which was indeed established later (Vargas and Prieto, 2000).

7. Basic infrastructure endowment for local economic development

The provision of basic infrastructure in accordance with local economic development needs is vitally necessary, because sometimes the existing infrastructure corresponds almost entirely to the needs of big firms, and this does not always ensure the necessary interconnection of the local production systems, resulting in inadequate links among the areas of production and between them and the main distribution and marketing centres. In Chile, for example, although Route 5, which runs through the Araucania region from north to south, is the communications backbone of the region, it only provides weak internal interconnections, resulting as noted above in inadequate links among the areas of production and between them and the main distribution and marketing centres (Bernales, 2000).

In Ilo (Peru), for its part, the municipality has obtained resources from the central government to channel the waters of the river Osmare to the water treatment plant; it has negotiated with the Office of the President of the Republic the provision of an adequate supply of water to the upper part of the city, where the Industrial Park is located but which suffered from water shortage and low water pressure; and it has made substantial investments in the asphalting of the streets of the port and the construction of a land transport terminal, in order to facilitate transport and commerce (Benavides, 2000).

8. The adaptation of the legal and juridical frameworks for the promotion of local economic development, and the need to incorporate follow-up and evaluation mechanisms

When designing and implementing local economic development policies, it is necessary to clarify the role of the central government in the specific context of this type of initiatives: it must not only promote such initiatives by giving a decided boost to decentralization but must also adapt the necessary juridical, legal and regulatory framework for the promotion of local economic development. So far, however, local economic development initiatives have run into many obstacles in these fields, which reflects the lack of congruence between them and the priority concerns of central governments, which still do not seem to attach sufficient importance to them. "Production support" is sometimes equated with the execution of infrastructural works in the areas of basic sanitation, urbanism, roads and highways, irrigation, health or education, but usually without including the construction of markets for strategic factors and services for the development of micro- and small enterprises in the various local production systems.

It is hard to obtain finance for institutional investments of an intangible nature, such as the construction of networks of local actors, in Latin America: the criteria defining the activities that can be financed by the existing funds give priority to tangible investments of a social nature and relegate to a minor level those connected with the construction of innovative local environments. It must be emphasized that today this kind of intangible investment is just as important as investment in roads or telecommunications, since overall it makes it possible to establish the main conditions needed for the achievement of systemic local competitiveness. In some cases, the limitations are due to an unsuitable design imposed from outside, with an essentially assistentialist approach, but in others they are due to the failure to adapt the juridical frameworks of the countries to current needs, thus preventing the co-participation of the local public administration and

the private business sector in the creation of mixed local economic development institutions.

It should also be noted that all local economic development initiatives need permanent evaluation mechanisms. The indicators of the success of such initiatives are not only quantitative, however. Equally necessary are indicators on the construction of the social and institutional capital needed by those initiatives, which provide a better understanding of the technical, social, institutional, political and cultural dimensions of local development. Sometimes, establishing such qualitative indicators seems to present a problem for researchers, but it is perfectly possible to measure these qualitative phenomena one way or another: for example, through the number of local consensus-building bodies which have been set up and consolidated, the degree of participation of those who take part in them, the resources contributed by the various local actors to those bodies, etc.

The degree of public-private involvement in local economic development initiatives, both in the formulation of projects and in their execution, is a good indicator of the success of such initiatives. Another important indicator in local economic development initiatives is the creation of institutions that place the existing public-private agreements on a formal basis. If it is desired to promote local economic development, it is necessary to join wills, stimulate dialogues, build public and institutional agendas, construct local networks, and assume and share responsibilities. Thus, local economic promotion depends not only on the attainment of indicators of economic efficiency, but also on vital investment in the social and institutional capital needed to ensure the success of these processes.

9. Efficient coordination among institutions

As already noted, many local economic development initiatives have problems in achieving effective and efficient coordination among the different levels of institutions (central, provincial and local) of the public administration and among the different sectoral ministries or bodies. However, the excessive distances that sometimes exist between the capital city where the regional (departmental or state) government is located and the different municipalities could be mitigated through more active behaviour on the part of the intermediate levels (provinces or micro-regions). As shown in the case study on Rancagua (Chile), the existing set of bodies or services may not achieve fully coordinated action at the local level because it is based on a sectoral and centralist design. Its local institutional linkages must therefore be strengthened in order to increase its efficacy and efficiency. Likewise, the relations between the central and municipal levels may suffer from insufficient coordination of measures to promote production, thus causing duplication of efforts and resources (Muñoz, 2000).

There is also a need to overcome the system of dispersed action by non-governmental or international cooperation organizations, mostly based on an assistentialist approach. Local economic development is not just social or solidary development. It is also a question of promoting the introduction of technological, management, social and institutional innovations in the local production systems, in order to generate suitable conditions for the viable and sustained creation of employment and income. Priority attention to the needs of micro- and small enterprises and the strengthening of local governments for the promotion of local economic development must therefore be incorporated in the development strategies of the different local areas, in order to obtain more consistent results than those achieved through praiseworthy but excessively isolated efforts. At the local level, therefore, there must be institutions capable of coordinating the dispersed actions of NGOs and international cooperation bodies.

10. The need for complementarity between social investment funds and resources for the promotion of local economic development

Finally, it should be noted that social investment funds and investments to promote production are complementary, and it is a mistake to think that it is only necessary to think in terms of the latter when social needs have been taken care of. As a peasant woman who was once a municipal councillor in Irupana (Bolivia) said: “It is no use building local heath centres if we have no money to maintain our families” (Zubieta, 2000). It is indeed little use investing in rural health facilities or schools if the inhabitants have to emigrate to find a job. Paying attention to social investments without

simultaneously incorporating a local economic development approach is nonsensical. Both these things must be addressed in an integrated manner, as many social investments (such as those in health, education and housing, for example) are also investments in development: raising the skills of the human resources is crucial in any development strategy, and even more so in the present "knowledge society".

Consequently, social policies cannot be considered apart from development policies. Decentralized bodies generally show considerable "know-how" in their handling of social development instruments, but much less in the field of the promotion of production.

The absence of funds for the promotion of local economic development initiatives which are complementary to social investment funds is thus a serious shortcoming in Latin America, in contrast with the situation in the developed countries. In this respect, it would be desirable for the multilateral organizations which have an influence in Latin America and the Caribbean to consider the possibility of creating funds to promote local development initiatives – like the structural funds in the European Union – in order to make up for the limitations of the assistentialist approach of the social investment funds in Latin America.

In this sense, it is important to emphasize that local economic development is an alternative approach to that based on assistentialist policies to overcome poverty, and it seeks to influence the generation of employment and income by improving the productivity and competitiveness of the various local production systems. This involves progressing from an assistentialist design to one based on economic development and from a sectoral view to one of a more integrated and horizontal nature, according to the characteristics, actors and social capital of each local area. It is in this local area that the demand for the modernization of the existing structure of enterprises is defined, and it is on the basis of this demand that the appropriate supply of innovation services and technical and business training for the promotion of local production must be built up.

(Original: Spanish)

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