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DESCENTRALIZACIÓN Y DESARROLLO LOCAL Y REGIONAL

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RESUMEN

Este artículo explora el impacto de la descentralización sobre el potencial para el desarrollo local y regional, tanto desde una perspectiva teórica como utilizando ejemplos de América Latina. Pone de relieve que la descentralización podría convertirse en un vehículo clave para propiciar un desarrollo sustentable, pero que al mismo tiempo presenta significativas desventajas que deben ser atendidas para maximizar los beneficios potenciales de la transferencia de poder y de recursos hacia niveles subnacionales de gobierno. Dadas estas ventajas y desventajas, el artículo analiza bajo cuáles circunstancias la descentralización puede convertirse en un instrumento efectivo para alcanzar un desarrollo sostenido y una mejora sostenible en la calidad de vida de los individuos, especialmente la de aquellos que viven en regiones desfavorecidas o en regiones con condiciones iniciales difíciles. Los casos de estrategias de desarrollo en Medellín (Colombia) y en Rafaela (Argentina) ilustran cómo esto puede lograrse.

Palabras clave: descentralización, desarrollo regional, desarrollo local, Argentina, Colombia

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ABSTRACT

This paper looks at the impact of decentralization on the potential for local and regional development, both from a theoretical perspective and using examples from Latin America. It highlights that decentralization may become a key vehicle in fostering sustainable development, but that it also has significant drawbacks that need to be addressed in order to maximize the potential returns of the transfer of powers and resources to subnational tiers of government. Given these advantages and disadvantages, the paper analyses under which circumstances can decentralization become an effective instrument for achieving sustainable development and a sustained improvement in the quality of life of individuals, especially those living in lagging regions or in regions with difficult initial circumstances. The cases of development strategies in Medellín (Colombia) and Rafaela (Argentina) illustrate how this can be achieved.

Keywords: decentralization, regional development, local development, Argentina, Colombia

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Decentralisation and local and regional development

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Decentralisation and local and regional development

Abstract:

This paper looks at the impact of decentralization on the potential for local and regional development, both from a theoretical perspective and using examples from Latin America. It highlights that decentralization may become a key vehicle in fostering sustainable development, but that it also has significant drawbacks that need to be addressed in order to maximize the potential returns of the transfer of powers and resources to subnational tiers of government. Given these advantages and disadvantages, the paper analyses under which circumstances can decentralization become an effective instrument for achieving sustainable development and a sustained improvement in the quality of life of individuals, especially those living in lagging regions or in regions with difficult initial circumstances. The cases of development strategies in Medellín (Colombia) and Rafaela (Argentina) illustrate how this can be achieved.

1. Introduction

In recent years decentralisation has been rife across the developed and the developing world. From Europe to Africa, from Asia to the Americas, a large number of countries has embarked in more or less ambitious transfers of powers and resources to lower tiers of government (Rodden 2002; Rodríguez-Pose and Gill 2003). The sources of this process are both bottom-up and top down. Bottom-up decentralisation processes have taken place in response to strong subnational demands for greater autonomy. National governments have also been keen to grant greater powers and resources to subnational governments that, until recently, had often been nothing more than mere administrative divisions.

This recent global drive towards decentralisation has been firmly rooted in a growing belief that local and regional yields some sort of economic dividend (Keating 1997; Morgan 2002). Fiscal federalist theories have long defended the idea that greater autonomy allows to tailor policies better to the needs individuals, thus raising government efficiency (Brennan and Buchanan 1980). Yet, despite this widely held belief, the evidence that links decentralisation to overall greater local and regional development remains relatively scant (Martínez-Vázquez and McNab 2003). Most studies that have tried to address the issue of to what extent decentralisation generates greater local and regional development have tended to come up with different results: from those that highlight the overall benefits of decentralisation to those that underscore its limitations and its potential to generate greater territorial disparities.

This paper addresses this controversy, by asking the question of whether there is a strong link between processes of decentralisation and local and regional economic development. In particular it tackles two questions: a) does decentralisation foster regional and local development? and b) can decentralization be factor pushing income and living standards convergence across provinces or subnational territories? The paper aims to develop conceptual analyses in order to link decentralisation policies with local and regional development trends. In particular it aims to assess under which circumstances decentralisation can become an effective instrument for achieving higher level of income and quality of life in poor and less developed sub-national regions. The paper also addresses the role decentralisation can play in order to foster processes of local development planning – with particular emphasis to conditions in Latin America – at the same time as allowing to implement these initiatives in a framework of strong cooperation between local authorities and other private sector and community leaders.

In order to achieve these aims, the paper is divided into four further sections. The next section presents a theoretical review of the link between decentralisation and local and regional development. This is followed by an examination of under which conditions the economic development returns of decentralisation can be maximized, illustrating the whole discussion with the analysis of two Latin American cases – Medellín in Colombia and Rafaela in Argentina – which are increasingly regarded as a prime examples of how territories can make the most of the potential that greater autonomy offers for development at the local and regional level.

2. Decentralisation and local and regional development

Traditionally decentralisation and local and regional development have been considered as completely independent processes. On the one hand, decentralisation was generally associated with cultural identity. Demands for decentralisation were fundamentally linked to the need to protect regional and local identity, history, culture, and traditions, especially within the framework of large and diverse nation-states (Hechter 1975; Gourevitch 1979; De Winter and Türsan 1998; Moreno 2001). On the other hand, local and regional development processes were fundamentally that prerogative of the nation-state. National economic ministries and development and planning offices set up policies and strategies in order to establish the guidelines for economic development within any given country (Pike et al. 2006). It is only in the last two decades that the paths of decentralisation and local and regional development have crossed (Rodríguez-Pose and Sandall 2008). Under a ‘new regionalist’ framework, proponents of decentralisation see it not just as a way to preserve identity and culture, but, more prominently, as a form to promote economic development in virtually every territory (Bookman 1992; Harvie 1994; Giordano 2000). Building on the essential tenet fiscal federalism – namely that decentralisation fosters a better tailoring policies, services, and public goods to the needs of citizens (Tiebout 1956, Musgrave 1959, Oates 1972, Brennan and Buchanan 1980) – proponents of the economic benefits of decentralisation argue that the transfer of power and resources to subnational tiers of government can yield significant economic benefits (e.g. Ezcurra and Pascual 2008; Faguet 2008).

There are several ways through which decentralisation can influence local and regional development. In first place, and in accordance with the basic fiscal federalism theorem, decentralisation may allow for a more accurate match between policy and the needs of diverse territories, thus increasing allocative efficiency (Martínez-Vázquez and McNab 2003). Local and regional governments generally have better firsthand information about their real preferences of the citizens and can therefore respond and deliver on these preferences faster and more efficiently than often remote central governments (Tiebout 1956; Musgrave 1959; Oates 1972; Brennan and Buchanan 1980; Breton 1996; Thießen 2003). A better matching of policies to the needs of the people also has additional benefits. It contributes to greater accountability and transparency of government and brings government and those governed closer to one another (Putnam 1993; Azfar et al. 1999). It also reduces transaction costs and, provided well functioning institutions, it may also reduce the risk of elite capture of rents (Inman and Rubinfeld 2000; Storper 2005).

Second, decentralisation may encourage policy innovation (Donahue 1997). The greater the number of constituencies setting up their own independent policies, the greater the diversity of policies, and the greater the chances for more innovative policies to succeed (Rodríguez-Pose and Bwire 2004). Decentralisation also reduces the risks and the potential costs of policy innovation, as the failure of any particular local or regional policy is less costly than that of a national policy.

Third, decentralisation brings about important benefits in cases where serious diseconomies of scale exist. It is often the case that the cost of producing certain public goods tends to rise significantly with size. This is particularly true when the

delivery of policies and services is done by large, remote, and/or often inefficient central bureaucracies (Klugman 1994). These bureaucracies are frequently less well suited to be able to deliver specific public goods more efficiently than the more supple local governments, with their closeness to the people and their better knowledge of their needs. Local delivery also shortens supply chains and reduces costs, potentially generating greater economic efficiency and even reducing the potential risks associated with the loss of redistributive power by the central government (Ezcurra and Pascual 2008).

Lastly, decentralisation encourages competition across different subnational governments, pushing governments to mobilise their own resources and potential to the full and further encouraging them to innovate (Prud'homme, 1995; Donahue, 1997; Martínez-Vázquez and McNab 2003). And competition further encourages innovation, compelling local and regional governments to think about new policies and strategies that can be adapted to the needs of their own territory (Tanzi 1995; Breton 1996; Donahue 1997; Thießen 2003)

This combination of better matching of policies to local needs, greater potential for innovation, greater proximity to the people, and greater potential for the mobilisation of local social economic resources has brought decentralisation to the fore as a major policy tool capable of delivering greater overall efficiency and enhancing local and regional development (Martínez-Vázquez and McNab 2003).

However, while the potential benefits of decentralisation presented above are true, it is also true that decentralisation may bring about a series of drawbacks that could

ultimately undermine the potential to encourage greater local and regional government. Some authors, such as Prud'homme (1995), have indicated that the returns of better matching policies to the needs of local citizens may have been somewhat overblown. This tenet assumes that the needs of citizens differ significantly from one territory to another, but the case is far from proven, especially in developing countries. Prud'homme argues that more than responding to “fine differences in preferences between jurisdictions [governments have] to satisfy basic needs, which are – at least in principle – quite well known” (1995: 208). These basic needs of access to food, access to decent education, access to health care, access to basic infrastructure, and to other basic services are universal and do not differ greatly from one region to another. Moreover, even if we accept that basic needs vary across territories, Prud'homme (1995) also underlines that it is far from proven that local and regional governments have a clear comparative advantage with respect to national governments in uncovering those differences. And national governments benefit from greater economies of scale and from more resources that may allow them to better satisfy the basic needs of the population (Prud'homme 1995). The benefits of central government delivery are thus likely to be greater for capital intensive goods, such as large infrastructure projects, where a critical mass of investment is needed in order to reduce the per-unit cost of delivery (Frenkel 1986; Breton and Anthony 1978).

Poorer localities and regions may also be at a further disadvantage in delivering efficient policies and strategies. Often times subnational governments – especially in the less developed regions after less developed countries – lack the adequate expertise and human resources to put in place adequate development policies and strategies, let alone to tailor those policies to the specific needs of their citizens (Rodríguez-Pose

and Gill 2004; Sapir et al. 2005). Richer and more dynamic regions can generally extract greater resources, either through the taxation of their own citizens or through a greater political leverage to negotiate with the central government (Rodríguez-Pose and Gill 2004). In addition, poorer local and regional governments are often at a disadvantage in terms of further human resources at their disposal. Because of the generally greater salaries and the greater possibilities for promotion they offer, central governments generally have better and more efficient administrations than local and regional governments, especially if these governments are poor, distant, and strapped for cash (Prud'homme 1995). As Oates (1993) underlines, this issue is particularly problematic in developing countries, which tend to lack the effective regional and local fiscal institutions as a result of decades of highly centralised fiscal systems.

Hence, the possibility of matching policies to the specific needs of the population may be a pipedream, as local and regional governments often do not have the necessary powers and resources to be able to adequately address local problems. Inadequate or unfunded mandates are common in processes of decentralisation and tend to seriously compromise the potential of subnational governments to deliver better targeted and more efficient policies than those of national governments (Rodríguez-Pose and Gill, 2003).

Finally, local conditions will enormously affect the potential returns of decentralisation on local and regional development. Factors such as the size of the country, the level of development, the dimension of the internal disparities, and, fundamentally, the type and degree of decentralization contribute to determine the potential for subnational governments to efficiently deliver public goods and services

(Arzaghi and Henderson 2005; Martínez-Vázquez and Timofeev 2009; Rodríguez-Pose and Krøijer 2009).

Whether the positive or the negative effects of decentralisation on local and regional development prevail is almost impossible to determine and cannot be established using theory alone. However, the empirical work on the economic effects of decentralisation has been limited and, as mentioned earlier, generally reaches widely diverging conclusions. The reasons for this diversity are that determining the impact of decentralisation on local and regional development empirically is undoubtedly difficult. There is no clear agreement about how to best measure decentralization (Ebel and Yilmaz 2002: 6-7) and, even when the same indicators are used, the methods and approaches vary enormously. In addition, there is hardly ever a counterfactual, making it impossible to discern what would have happened to local and regional development trajectories in the absence of decentralisation.

As a consequence, the evidence of whether decentralisation promotes or deters local and regional development across the world remains limited and available empirical analyses virtually fit every possible position. Some studies have found that there is a positive association between decentralisation and local and regional development (Lin and Liu 2000; Akai and Sakata 2002; Iimi 2005). Others, in contrast, indicate that the relationship can be negative (e.g. Davoodi and Zou 1998; Zhang and Zou 1998 and 2001). While most tend to highlight that the link between the centralisation and local and regional development varies from one region and one country to another and, in most cases, tends to be either neutral or insignificant (Davoodi and Zou 1998; Woller and Phillips 1998; Rodríguez-Pose and Bwire 2004) or far from linear [e.g. Thießen

(2003) uncovers a hump-shaped relationship between decentralisation and development, indicating the potential existence of an optimal level of decentralisation across countries] (Table 1).

Table 1. The link between decentralisation and economic development

| <i>Author (year)</i> | <i>Sample</i> | <i>Period</i> | <i>Findings</i> |
|---------------------------------|---|------------------------------|---|
| Akai and Sakata (2002) | USA | 1988-1996 | Positive and significant |
| Davoodi and Zou (1998) | 46 countries | 1970-1989 | Developing: negative, but not significant OECD: no relationship |
| Imi (2005) | 51 countries | 1997-2001 | Positive and significant |
| Lin and Liu (2000) | China | 1970-1993 | Positive and significant |
| Rodríguez-Pose and Bwire (2004) | Germany, India, Italy, Mexico, Spain and US | Different periods until 2001 | Mostly insignificant, with the exceptions of Mexico, the US, and, partially, India, where it becomes negative |
| Thießen (2000) | 26 countries | 1973-1998 | Hump-shaped relationship |
| Woller and Phillips (1998) | 23 LDC's | 1974-1991 | No relationship |
| Zhang and Zou (1998) | China | 1980-1992 | Negative and significant |
| Zhang and Zou (2001) | China | 1987-1993 | Negative and significant |

Source: Rodríguez-Pose et al. (2009)

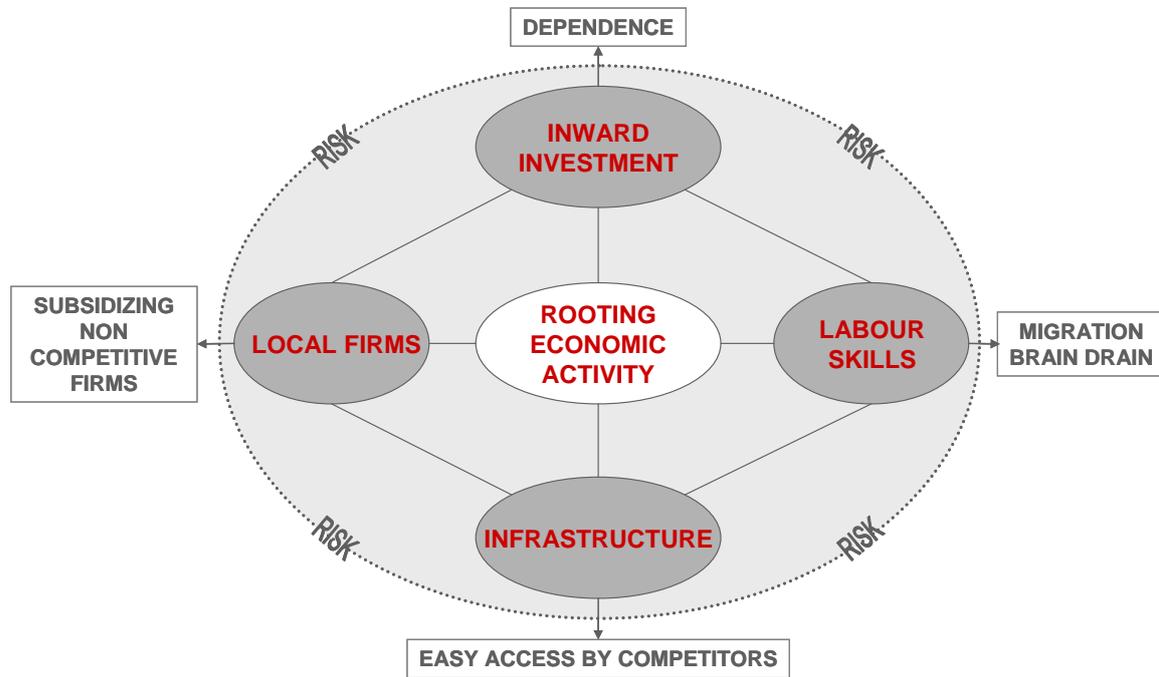
In spite of these contrasting views, the perception that decentralisation can generate greater local and regional development has remained popular (Loehr and Manasan 1999; Morgan 2002 and 2006; Martínez-Vázquez and McNab 2003; Thießen 2003).

3. Maximising the economic returns of decentralisation

Many of the above-mentioned studies – and fundamentally as a result of the lack of adequate proxies for decentralization – are completely oblivious as to how the different types and shapes that decentralisation adopts across and within countries may affect economic development. This greatly depends on the capacity of local and regional governments in different places to tackle the four key elements that determine the potential for economic development in any given territory: improving the competitiveness of local firms, attracting new inward investment, developing human capital, and upgrading infrastructure. While local and regional governments do not necessarily need to intervene in all those four areas contemporaneously, the capacity of any local or regional government to combine and coordinate interventions in all those four areas would greatly enhance the development prospects of that territory (Rodríguez-Pose 2002). For example, improving local infrastructure on its own does not necessarily lead to greater development and may indeed, under certain circumstances, leave less developed territories exposed to market forces and therefore more vulnerable. In the presence of inadequate local skills and a weak economic fabric, granting easy access to a territory by improving transport infrastructure is likely to further undermine the competitiveness local firms, encourage migration, and raise unemployment (Figure 1).

If, in contrast, any transport infrastructure policy is combined and coordinated with adequate policies to improve the competitiveness of local firms, to raise the quality of human capital, and to attract inward investment that will create synergies with local

firms, the chances of generating sustainable development at the local level increase significantly (Figure 1).



Source: Rodriguez-Pose (2002)

Figure 1. The fundamentals and risks of local and regional development

Likewise, focusing mainly on attracting inward investment would also not produce the desired results. If skilled labour is scarce and local firms are not competitive, such policies are likely to either fail or only create low-skilled, low-paid employment and greater dependency on external economic actors. However, if local firms are capable of producing quality inputs and the population has the appropriate skills, a strategy aimed at attracting inward investment can generate higher quality employment and additional opportunities for local firms (Figure 1).

Similar arguments can be made for policies that focus on either of the other axes in an environment that suffers from weaknesses in other sectors. Developing labour skills

can lead to migration and brain drain, if skilled jobs are not available locally. Likewise, embarking on policies to increase the competitiveness of local firms may only lead to subsidizing uncompetitive firms, if the local economy does not provide an environment that is conducive to growth.

Taking this perspective into account, the question is not therefore whether decentralisation is good or bad for the local and regional development, but what type of decentralisation is needed in every specific territory in order to maximise the potential benefits of greater autonomy and minimise its risks and under what circumstances it is this potential better matching of policies and strategies to local preferences more likely to take place.

Table 2. Types of decentralisation and their potential impact on economic development.

| Decentralisation of Power | |
|--------------------------------------|--|
| Decentralisation of resources | <p>Suboptimal situation: Lack of resources at national level, lack of power at sub-national level: Probable inefficient provision of services</p> <p>Local government driven development: Balance of resources and power at the sub-national level</p> |
| | <p>Central government driven development: No meaningful decentralization, top-down development policies</p> <p>Suboptimal situation: Unfunded Mandates: Responsibility given to local authorities without the resources to carry it through</p> |

The potential of local and regional governments to deliver greater economic development tends to depend on issues legitimacy, power, and resources. The greater

the legitimacy, the power, and the resources of subnational governments, the greater the capacity to potentially deliver a perfect matching between subnational policies and strategies and the demands and needs of the local territory (Rodríguez-Pose and Gill 2003). By combining the decentralisation of power with that of resources several potential situations in terms of development outcomes can be envisaged (Table 2).

The traditional situation in highly centralised countries is the one presented in the bottom left-hand corner of Table 2. Under these circumstances there is little decentralisation of power and resources. Development policies are firmly in the hands of central government decision-makers and planners who decide the key areas of intervention, often controlling from the general guidelines of intervention to the actual minutiae of every project. This central government-driven development strategy which may benefit from economies of scale and perhaps higher levels of competence by central government officials, but may, to a certain extent, stifle policy innovation and is likely to overlook or underprovide adequate public goals and services in specific territories. The other side of the coin is found in cases where there is a strong decentralisation of power, accompanied by significant resources at the local level. In this case, the balance of resources and power at the subnational level allows local and regional governments to deliver on their capacity to adapt policies and strategies to local needs. The success of development strategies will depend to a great extent on the ability of local and regional authorities to coordinate the process and implement locally-defined policies. A meaningful development process is only possible where local governments have at least some powers and resources, making some balanced degree of decentralization crucial to local and regional development. However, the flipside of the coin is that, especially in the less developed territories – without an

active technical support from central government offices or international organizations – capacity constraints may be rife at the local level, undermining the potential returns of local strategies.

The two other alternatives (high decentralisation of power, but low decentralisation of resources, and, vice versa, high decentralisation of resources, but low decentralization of power) represent a suboptimal condition for the delivery of greater economic development. In the former case because subnational governments find themselves with unfunded mandates, that is lacking adequate resources in order to pursue policies that would allow them to respond to local demands. In the latter case an extreme decentralisation of resources could starve the central governments of resources and limit their potential to act as regulators and guarantors of similar standards of living across any given country, resulting in an inefficient and highly unequal provision of services and potentially in greater economic disparities (Rodriguez-Pose and Gill, 2005).

On the whole, decentralisation is likely to favour local and regional development in several ways. Firstly, through the transfer of powers and resources to the local level, it augments the implementation capacity of local governments and empowers local communities. Secondly, it helps to create new institutions that can guide and coordinate the local and regional development process. Third, where decentralization creates an elected local tier of government, it increases local opportunities of voice. In addition, the territorial dimension of decentralization is likely to make policies and strategies more adaptable to local circumstances and to the challenges that external changes in the economic environment may bring. From an institutional perspective,

decentralization also allows local and regional governments to mobilise socio-economic actors and create new local forms of governance that, by and large, have helped to dynamise the local social economic fabric (Le Galès 2002; Brenner 2004). By making the development strategy and policies locally-owned and implemented, decentralisation facilitates the involvement of a wide range of actors many of whom will have an intimate knowledge of local conditions and issues, enabling the formulation of more efficient locally-tailored development strategies. Local coalitions are also likely to have more incentives to find more efficient and cost-effective ways of producing goods and services (Lever and Turok, 1999: 791; Martínez-Vázquez McNab, 2003: 1603).

4. Local and regional economic development: successful Latin American cases

The emergence of localities and regions as new centres for decision-making in the realm of economic development has given rise to a series of examples across the world of good practices, but also to a raft of not so successful cases. Latin America is no exception. The rapid decentralisation witnessed in many Latin American countries in the last decades has generated a much greater variety of approaches to development, which clearly departs from the traditional top-down approaches of two to three decades ago and has resulted in a number of successful and less successful experiences. In order to illustrate this, I will present two case studies that were selected on the basis on the innovativeness and diversity of their approaches to local development. The initial identification of cases for consideration was the result of existing knowledge and contacts and of primary research in the literature on local

economic development. These cases are Medellín in Colombia and Rafaela in Argentina and can be regarded as two excellent examples of how local government dynamism and the emergence of new governance structures linked to decentralization have contributed to new development strategies that may foster a serious socio-economic transformation of both cities.

4.1. Medellín

Medellín is the capital city of the Department of Antioquía and has a population of 2.2 million, making it the third largest city in Colombia. It is a major industrial centre representing the second largest city in the country in economic terms. The recent process of decentralisation in Colombia, which has empowered regional and local administrations and, in particular, local mayors, has allowed for the emergence of new and innovative local forms of governance which have been at the heart of development initiatives across many parts of Colombia. Medellín is at the forefront of this process. The first strategic plan for the city – ‘Strategic Plan for the Metropolitan area of Medellín’ – was developed with technical and financial assistance from the Iberia-American Centre for Strategic Urban Development (CIDEU) – a network of cities in Latin America, Spain and Portugal operating with the financial support from the national governments of the cities involved – in 1995. The local economy assessment and strategy formulation in Medellín was executed and coordinated by the Sub-department of “Prospective of the City” under the political leadership of the mayor and the city council. Prospective of the City, which reports to the Planning Department, has had relatively free rein in order to decide the nature and number of studies going into the assessment, most of which are carried out by external

consultants and organisations, and has been responsible for drafting the strategy. Private sector organisations such as the Chamber of Construction Industries in Colombia (CAMACOL), the Chamber of Commerce in Medellín, the National Association of Entrepreneurs (ANDI) have played an important role in the assessment of the local economy. These organisations have produced over the last few years periodical and specific studies on different aspects of the economy which feed into both specific analyses and general monitoring.

The basic development policy strategy has been based on two main outputs. Since the mid-1990s a Development Plan has been created every four years for the duration of the municipal government and mayor. This has been a broad plan comprising a range of socio-economic issues, including governance, social inclusion and local economic development. However in recent times the local administration has started to regard this as insufficient and too short term to be the only output of the strategic planning process. In particular, there has been a problem with continuity in financing projects needed for longer term under the current development plan framework. Hence, the city of Medellín is currently working on reviving the ‘Strategic Plan for the Metropolitan area of Medellín’. This plan was developed for the first time in 1995 with financial and technical support from the CIDEU and is generally seen as positive in terms of content and of the process to develop it. It takes a 20 year view of development in a broad range of socio-economic topics.

The original plan was followed by the new ‘Strategic Plan for the Metropolitan area of Medellín’. Like its predecessor, the new strategic plan is comprehensive, covering a broad range of social and economic topics and is a long-term strategic planning tool

with some of the activities planned for until 2020. The plan is scheduled to be revised and updated every 5 years. The strategic plan is made up of 12 topics and for each of these a study is carried out by an external consultant. Each of the studies analyses the international context for the topic in question and highlights best practice examples; examines the national and local context; and proposes a series of interventions.

Parallel to the assessment directly linked to the formulation of the Strategic Plan, there is an ongoing process of monitoring and analysis of the economy. Various studies and components go into this assessment. In general, however, few of the studies are made by in-house experts. Instead, Medellín puts much emphasis on using existing sources of information in the evaluation and monitoring of the economy. For example, the city leverages periodical reports by such organisations as the CAMACOL and the Chamber of Commerce in Medellín. Examples of this are the reports by the Chamber of Commerce in relation to the Decency programme. Another key monitoring tool in the local economy assessment is an annual household survey. This was originally designed to monitor the progress in relation to the Development Plan of 2004. Data from this survey is used to construct the Quality of Life Index against which progress is tracked.

Decentralisation has also allowed for greater leeway in the local economy assessment. The local government has transformed this process into a largely analytical process with strong stakeholder participation at the later stages of the process. In the experience of the City of Medellín, involving stakeholders in an early stage was considered not to be particularly effective. However, in a clear indication of the role of new governance structures, Medellín believes that it is important that all

participatory exercises should be directly linked to project and programme formulation, as general communiqués and visions produced by conferences and public meetings can easily be ignored by politicians.

There are two main channels for stakeholder participation. The first one is the City Congress which is directly linked to the formulation of the Strategic Plan. (The City Congress has been conducted annually since 2004, but has previously not been linked directly to strategy or policy formulation). Here the strategic direction of the new strategic plan and the results of the 12 studies are presented to representatives of private sector groups, community and civil society organisations, trade unions, and NGOs. Subsequently, working groups with representation from relevant organisations are organised for each of the topics for which the studies serve as inputs. The purpose of the City Congress and working tables is twofold. Firstly, it creates a sense of ownership of the strategy among the organisations who are involved in project implementation and who are affected by it. Secondly, the projects that the working groups will propose serve as an important input in the strategy development process.

The other channel for stakeholder involvement is the annual participatory budget process, where citizens participate directly. Approximately 7 percent of the municipal budget is decided through participatory budgeting. This budget is then distributed to the different neighbourhoods, where neighbourhood assemblies decide the type of projects they want. All residents are welcome to attend these assemblies. Decision-makers feel that organising citizen participation process this way makes the design of the actual end-projects better adjusted to local needs, while at the same time allows for a cohesive overall strategic development.

The key strengths of this decentralised planning and assessment process are the following:

- The strong involvement of stakeholders: Residents are encouraged to participate in the annual participatory budget sessions for each neighbourhood in which approximately 7 percent of the municipal budget is decided.
- Depoliticising the planning process: By implementing a basis for monitoring of the progress of the development plan as well as assessing the needs of the population (i.e. the quality of life index).
- Greater political will by the local government to dedicate resources and efforts into the strategic planning process.
- Local capacity building: There is an increased emphasis on building local capacity than was the case with the development of the 1995 Strategic Plan, which is aiding to institutionalize and strengthen the local economy assessment and strategy formulation process. For example, the technical planning staff of the city undergo training in the use of scenario planning and econometric forecasting methods.

The development strategy of Medellín is grounded in a thorough collection of data in order to monitor and evaluate the local economy. These data concentrate on economic structure, human resources, and institutions. The City of Medellín draws on numerous sources for information and data when planning the economy. Part of the data is collected systematically by the municipality and its agencies as part of the assessment and monitoring of the economy of the city. For example, since 2004, an annual survey of more than 20,000 households has been carried out among the population to get

information and data on a host of socio-economic issues, including income generation, housing, health and education.

In addition, the Medellín administration can access a host of other data which are not collected systematically as part of the local assessment or planning process. DANE, the national bureau of statistics, has a database containing data on a host of topics including regional GDP, sectoral composition of the economy, informal and formal sector employment, and regional exports and imports. The quantity and quality of these data are comparable to those of developed countries.

As shrewd use of this data and capitalizing on the information advantage of the local authorities and stakeholders has led to the formation of specific programmes aimed at addressing key development bottlenecks that would have been possibly overlooked if the strategy had been conducted at the national level. These include:

a) *The Decency programme – business community against corruption:* Local corruption has for a long time been regarded as a key bottleneck for the development of business activity. From the perspective of Medellín, national programmes aimed at tackling corruption were considered fundamentally ineffective for improving conditions at the local level. The new governance structure for development has taken advantage of the decentralization process in order to create a programme more attuned to the characteristics of local corruption. The Decency programme, as it is known, was started in 1999, with the support of the Corona Foundation, the central government, the Colombian Centre for Corporate Responsibility, and the Colombian Confederation of Chambers of Commerce. The programme aims at promoting an

ethical culture in public procurement processes. As part of the programme a study into the procurement culture was carried out based on a business survey performed every 2 years since 2000 in numerous cities in Colombia. Approximately 100 firms from Medellín are surveyed each time. In the survey, firms are asked to rate the degree of transparency, corruption and anti-competitive behaviour in relation to public procurement processes; to rate the effectiveness of current anti-corruption measures; and to rate the efficiency and trustworthiness of different public agencies.

b) *Project for creating a city-based GDP*: This project aims at developing a GDP rate for Medellín and is carried out by the Economic Development Department of the University of Antioquía at the request of the City of Medellín. The fact that GDP rates are only developed on a regional level in Colombia has always been problematic for planning at the city level. While it has been possible to compute GDP rates for the city on an annual basis, from 2007 GDP rates for Medellín are being produced on a quarterly basis. While initially the University of Antioquía was in charge of producing this data, the project includes a training dimension that will allow technical planning staff at the municipality to generate the GDP rate in the medium term.

c) *Socio-economic household survey*: Another important bottleneck for development was the lack of clear information on a raft of issues related to city-dwellers. In order to overcome this problem, the University of Antioquía was commissioned to carry out a survey among around 20,000 households on an annual basis since 2004. The survey is used to collect information on a wide range of socio-economic data on the household in order to construct a Quality of Life Index. The Quality of Life Index is not only a powerful analytical tool used in for the diagnosis of the planning process,

but is also key to measure the impact of local government policies and to identify geographical areas at which policies to combat social exclusions should be targeted. The questionnaire was designed by the Planning Department and the University of Antioquía based on a similar survey carried out by the City of Medellín in 2001. The questionnaire includes questions on the size and quality of the residence, access to public infrastructure and services, electric appliances and vehicles, and extensive data on the household, including demographics, occupation, educational level, and health.

It is still too early to say whether this raft of measures associated with the ascent of decentralisation will transform the city of Medellín radically, but the greater dynamism that decentralization has awarded the local civil society, in general, and the local government, in particular, has allowed to address important bottlenecks and has empowered local stakeholders to take a more hands-on approach on the future of their city.

4.2 Rafaela

Rafaela, situated in the Argentinean Province of Santa Fé, represents a very different example from Medellín. With a population of approximately 80,000, it is 27.5 times smaller than Medellín and it is only the third largest city in the province. However, the drive of the local government and the local civil society has made it widely regarded as the most dynamic local economy in the province of Santa Fé and as a leader in political dynamism and strategic planning. It represents a successful case of how decentralization has allowed a municipal government – with little technical or

financial assistance from international organizations – to become a leader in strategic planning at the local level.

The key actors in the local economy assessment and the strategic planning process in Rafaela include both local and provincial government and local stakeholders, primarily the local business sector. At a municipal level, there are two public authorities which are of particular importance. The Secretary of Economic Development Programs (SPE) is responsible for the coordination of the overall planning process. The SPE was created in 1991 to promote LED by strengthening local firms – in particular small and medium enterprises (SMEs) – as a response to their vulnerability to structural and technological changes. It was aimed at creating a favourable environment for cooperation between public and private institutions and actors related to economic development. The SPE is also responsible for the overall coordination of the planning process and for implementing the different development projects. The SPE also organises the stakeholder consultation process and dialogue with the private sector. The second key institution – the Institute for Training and Studies for Local Development (ICEDeL) – carries out the studies in relation to the competitiveness assessment and also collects statistics. The ICEDeL was created in 1997 with the remit of providing information to support decision-making, undertaking training for municipal staff in areas such as project management, and contributing to the management of city development programmes. The strengthening of the local civil society through training leaders of trade unions and other organisations in skills relevant to organisational development (e.g. negotiation skills) is also among its objectives. It is staffed by a technical team of less than 10 people and a team of external experts who are contracted for specific projects. Two other key local actors

have been the Centre for Enterprise Development (CDE) and the Centre for Industry and Production (CCIP). The CDE was created in 1997 by six business organisations and the municipality with funding from the Inter-American Development Bank and offers technical assistance to businesses in areas such as product development, labour skill enhancement, and analyses of competitors. The organisation also contributes with studies relating to the competitiveness of the city which feed into to the strategic planning process. The CCIP is an older private sector institution created in 1932 by a group of local merchants. The role of the organisation is to represent the interests of the city's industry and commerce. This organisation is the focal point of stakeholder and business participation. Numerous business organisations are represented on its board and among its members.

Either through some of the bodies mentioned above or directly, the business community has been involved in the strategic planning process from the beginning, especially in economic policy formulation, planning and competitiveness assessments. The involvement also included carrying out studies which directly or indirectly fed into the development of strategies and participating in commissions and committees on specific policies and projects and a great deal of informal and implicit dialogue.

The provincial government's role has primarily been that of a facilitator of the planning process at the municipal level. A prime example of this is the programme 'Productive Municipalities' initiated in the mid 1990s by the Minister of Production in Santa Fé. This programme was based on the experience of Rafaela and seeks to identify and satisfy needs for training and capacity building at a local level in relation to LED strategy building.

The local and regional development assessment and strategic planning process in Rafaela can be traced back to the early 1990s, when under a new political leadership the municipal government started engaging in economic policy discussion and formulation with support from the private sector. Up until then the municipal government had primarily been concerned with public service delivery and the execution of public works.

The strategic planning process in Rafaela has not followed a standardised process. There is no set frequency for the launching of strategic plans – the last one was launched in 1996. The strategic plan of 1996 set a longer-term strategic framework for policy development for the following ten years. It is not yet certain when and whether a new plan is to be created. Currently, policy is created on a project-by-project basis.

The process of assessing and monitoring the local economy is a combination of fixed and more sporadic components. Since 1993, Rafaela has been producing an annual report on the results of the socio-economic survey carried out among households in the city. This report provides a general overview of the population, such as outreach and satisfaction with public services, health, education levels, and demographics. In particular, it focuses on local labour markets and rates of economic activity. This is seen as the key monitoring tool in that it not only captures household data which can be compared to national trends, but also gives some indirect information on the local industry.

As for the more irregular component, there is no set approach for the execution of studies feeding into the planning process. The focus of local government planning efforts and hence the themes for which assessments need to be made are set through discussions with the business community and institutions in fields relevant to the business community, such as universities and technical schools. The studies feeding into the assessment are generally made by ICEDeL, but in some cases are led by or also involve the business organisations, though they in these cases are not made specifically for the purpose of developing economic policies. In addition, there is also a great deal of informal and implicit dialogue and cooperation between private enterprise and local government.

Generally, economic policy is geared towards and driven by the needs of the local industry, as articulated through the various organisations representing them. These discussions take place in meetings, workshops, and seminars organised by the secretary of the SPE from the municipality and also by local business organisations. These events are frequent and are organised in relation to general economic and business development topics or in relation to specific projects.

The strengths of this decentralised strategic planning process include:

- A strong political leadership displayed by the government which has been essential in refocusing the role of government from public service provision to strategic planning from the early 1990s onwards;
- The cooperation between government and business community and the way in which both parts have displayed a deep commitment and seriousness to the strategic planning process;

- The continuity of data collection and analysis which has been strengthened and underpinned by the fact that the municipal government has been creating institutions to support it in its planning efforts, namely ICEDeL and SPE;
- The officials and civil servants in SPE and ICEDeL who are not just well-trained, but also pro-active and resourceful, making effective use of whatever information and resources they have.

However, as with any decentralized strategic planning process, strategic planning in Rafaela has been affected by a series of problems. First, in the last few years, there has been a discontinuity of the strategic planning processes and no plan has been produced since the plan in 1996. There has also been some a lack of coordination with the strategic planning process carried out in areas surrounding the municipality, creating some problems in those fields of development that expand beyond the borders of the city. An additional problem has been that, although the data collection is of a high-standard, these data have not always been used to the full when designing interventions and policies. This is partly a result of lack of discussion concerning how the data could be better used in the process of designing policies. In addition, despite the active participation of the private sector in the strategic development process, there are still gaps in the knowledge about how the sector works and about its trajectory, which have not been completely solved, due to problems with data gathering.

5. Conclusions

This paper has addressed the issue of what are the implications of decentralization processes for local and regional development and under which circumstances can decentralization yield better outcomes for development at the local and regional level. The review of the literature highlighted that decentralization does indeed affect the prospects for local and regional development, but that there is no consensus among researchers on the topic about whether this impact is fundamentally positive or negative. Decentralisation is a double-edged sword for development strategies. On the positive side, it can bring enormous benefits for localities. Decentralisation encourages local and regional institutions to think seriously about and engage with their future. As such, it promotes efficiency, competition, and mobilizes resources that otherwise would have probably been left untouched or waiting for relief from the national government or other external institutions. It also encourages participation and, often times, greater transparency and accountability in government. But, most importantly, it promotes policy innovation and a more efficient delivery of services and public goods, by permitting a better matching between policy delivery and the needs of local citizens.

The potential downsides of decentralization are, however, also powerful. These are linked to issues of less efficient provision of services and public goods when intervention benefits from economies of scale; to the limited capacity of certain local and regional governments and stakeholders; or to the potential for corruption and the spread of clientelistic and nepotistic practices. Under these circumstances, decentralization can prove detrimental for economic development, leading to an

inefficient provision of public goods, zero-sum competition across territories, and potentially greater territorial disparities.

The question is thus not whether decentralization affects local and regional development, but how can we maximize the positive aspects of decentralization for development and minimize its risks. Some of the potential factors that may result in a greater contribution of decentralization to economic development have been presented. First and foremost comes the transfer of an adequate level of power, responsibilities, and resources to devolved governments in order to allow them to set up and implement development strategies that would really reflect the needs of diverse territories. In addition, decentralization is likely to yield greater returns in the presence of adequate institutions capable of designing solid tailor-made strategies. Capacity deficits in numerous local and regional governments, especially in lagging areas, may undermine even the best development strategies and possibly exacerbate the negative aspects of decentralization, such as corruption and clientelism. Institutional capacity building, coupled with a solid training and skilling of the local officials and stakeholders involved in the design, implementation, and monitoring of the development strategy is thus crucial. Finally, the design and implementation of strategies needs to be based on a solid diagnosis of the local socio-economic conditions, involving as many local stakeholders as possible, while balancing the different needs of the territory represents another key step for the success of decentralization in promoting economic development. In economic development there are, unfortunately, no one-size-fits-all solutions and quick-fixes rarely work, making tailor-made, locally-owned, and balanced development strategies the best combination

for realising sustainable development even in places with complicated starting conditions.

Achieving all these factors is not always simple. A combination of national and local, economic, political, and social constraints are always likely to threaten to derail local and regional development processes, but, as the cases of Medellín and Rafaela show, even in difficult starting circumstances, decentralized governments can become the catalysts for galvanizing the local and regional society and for the design and implementation of solid development strategies that may – if the effort is sustained – set the bases for sustainable development and for a serious improvement in the quality of life of the local citizens.

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List of interviews

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