

RELEVANT DOCUMENTS: POINTS FOR REFLECTION AND DISCUSSION

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PRIMER
FORO MUNDIAL DE
AGENCIAS DE
DESARROLLO LOCAL

TEMA: ECONOMÍA Y GOBERNANZA LOCAL - Nueva Historia para tiempos de Crisis*

PREMIER
FORUM
MUNDIAL
D'AGENCES
DE DEVELOPPEMENT
LOCAL

THEME: ECONOMY AND LOCAL GOVERNANCE - New History for Times of Crisis*

SEVILLA
1700260 / 500390
5-7
OCTUBRE 2011

Andalucía
se mueve con Europa

PRIMEIRO FORO
MUNDIAL DE AGENCIAS DE
DESENVOLVIMENTO
LOCAL

TEMA: ECONOMÍA Y GOBERNANZA LOCAL - Nueva Historia para tiempos de Crisis*

المنتدى العالمي
الأول لوكالات
التنمية المحلية
اقتصاد والتنمية المحلية في خضم الأزمات

FIRST WORLD
FORUM OF LOCAL
DEVELOPMENT AGENCIES

TEMA: ECONOMÍA Y GOBERNANZA LOCAL - Nueva Historia para tiempos de Crisis*

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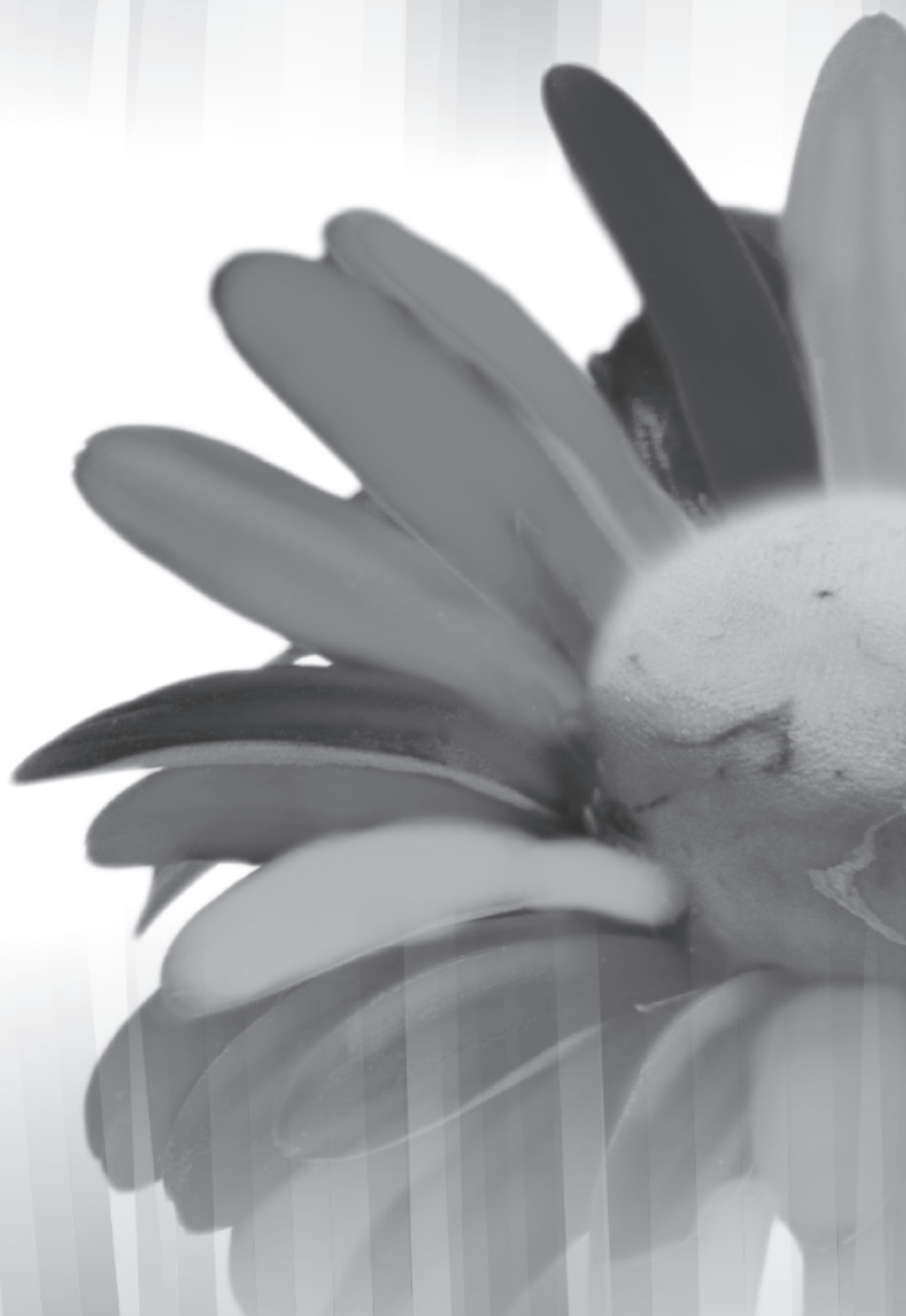
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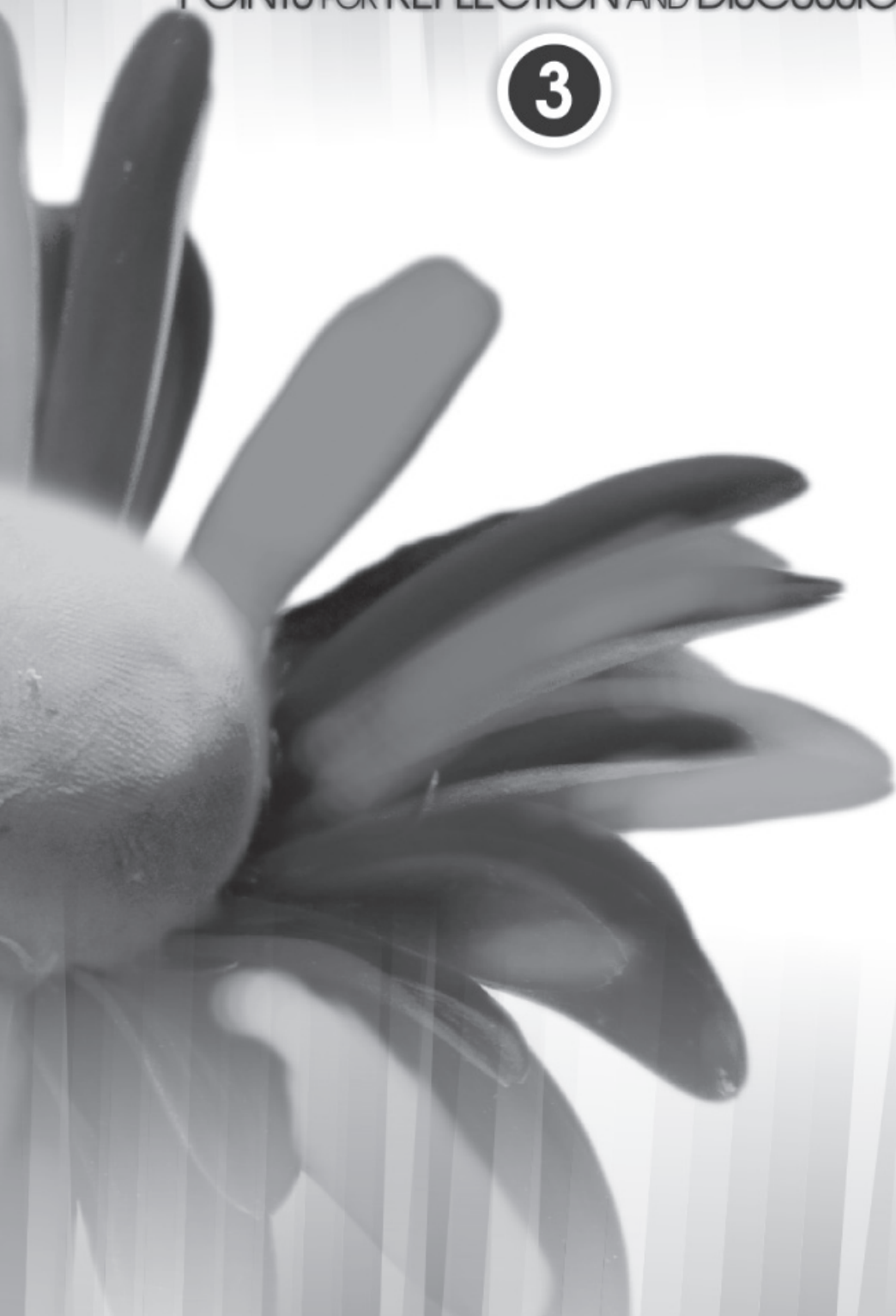




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A NEW PARADIGM

EXPERIENCE OF MOZAMBIQUE

SEPTEMBER 2011

Background

There is no need to provide a definition “in economic terms” of local development or of one of its instruments, i.e. local economic development agencies, the origins and current concepts of which are to be found in the 60s - following one of many oil crises, when Europe started to understand that solutions had to be found at a local level and when they became an option for Latin America (in the 80s and 90s) in the face of the lack of efforts from governments engaged in fratricidal battles against the people who were the source of the wealth of only a few.

There have been historic moments where we have seen examples of interventions that were coherent with the different sociopolitical realities and which led to the emergence of parallel structures that were justified, at that time, by the total lack of commitment by governments in Latin America to take on the fight against poverty by making the poor their main players.

Long-standing internal wars that resulted from a growing lack of conformity among the population with the unfair mechanisms in respect of the ownership of production means and even worse, the distribution of wealth, raised awareness in the developed world; this led to multilateral cooperation programmes being established to support the different causes and to help the victims of the dysfunctional structures of governments - the majority of which were run by military dictatorships that defended the country's elite and protected transnational corporations.

These are truisms that we cannot ignore because, until now, they have formed part of the consequences of a dependence that is nowadays more economic than political in nature.

At the end of the 90s, the wars were over and the best practices identified in the Central American experience had to be evaluated. A new scenario appeared with concepts that had been finely honed and methodologically included in the Local Human Development Programme (LHDP) that was designed and implemented in the Republics of Mozambique and funded through the United Nations Development Programme UNDP/UNOPS.

In Mozambique, it proved to be a successful instrument in consolidating peace and in introducing the concepts of local development in - politically speaking - highly sensitive territories, where the former rebel forces were omnipresent; perhaps, this was one of the reasons why it only lasted for a cycle of just over four years. Following its termination, 3 local economic development agencies were created (Maputo, Sofala and Manica), with a high level of NGO participation as in the Central American experiences and with the same virtues but also with the same

faults and weaknesses that were to determine their precarious sustainability.

The same model of LEDA was sponsored by the ILO, which helped to create a further two local economic development agencies in 2004 (Nampula and Zambezia, the latter completely inactive for over 4 years). In the past 4 years, Government initiative has led to the creation of LEDAs in the provinces of Gaza, Inhambane, Tête and Niassa.

For over 12 years, Mozambique has implemented a Decentralized Planning and Finance Programme (PPFD), which is funded through UNDP/UNCDF and introduces concepts of participatory strategic spatial planning and community consultation. It has been successful in introducing these concepts, first in Nampula and subsequently in Cabo Delgado and Gaza, and as a result of its approach, it received the support of the World Bank and GIZ. Consequently, this year it has a national plan covering the whole country.

The main achievements of the PPFD involved rebuilding social infrastructures (schools, health centres, wells, tertiary roads and some production infrastructures, e.g. dams) that were destroyed during the 16 years of war and destabilization. The process of strategic and operational planning led to strategic development plans, as well as annual plans and budgets. Local development was needed to complement the process and to complete the virtuous circle of development; accordingly, the Mozambique Local Economic Development Support Programme (PAPDEL) was created, with funding obtained through UNDP.

Currently, we have the UNDP - ART initiative that has brought about a new way of understanding multilateral cooperation, decentralized cooperation and mechanisms for coordinating the different public, private, national and international stakeholders, in building a new form of international cooperation that complies with the provisions of the Paris and Accra Agreements regarding the accountability of donors and partners and country ownership of their development policies.

ART-GOLD (Articulating Territorial and Thematic Networks - Local Governance for Human Development) is a new initiative in decentralized cooperation that recovers and brings value to the best practices from previous programmes. Its aim is to offer a new form of intervention in local development issues. It is currently working with more than 18 countries, three of which work under a different name, i.e. PDHL in Cuba, MyDEL Mujer y Desarrollo Económico Local (Women and Local Development) in Guatemala and ART-PAPDEL, the Local Economic Development Support Programme in Mozambique; this document will deal mainly with the latter.

1. Current situation.

What is happening?

In this analysis, it is important to distinguish between our understanding of local development agencies (LDAs) and local economic development agencies (LEDAs); the organizers of the event left this somewhat ambiguous and any debate on the subject should be based on a clear differentiation between the two.

Local Development (LD) covers the whole range of sectoral activities that lead to better social, economic and cultural conditions of communities and refers to activities ranging from a detailed diagnosis of basic public services, such as health care, education, water and sanitation, roads, local administration, justice, finance and public infrastructures of local authorities, to local economic development, such as agricultural production, livestock production, agricultural area, transformation and/or processing (industrialization), domestic and foreign markets, financial and technical support and even land development.

The first instruments for Local Economic Development are Local Authorities, whose constitutional mandate makes them natural developers of their land; unlike the former, Local Economic Development Agencies work on the basis of LED concepts that have been developed jointly by national and local government programmes and it is understood that LEDAs - in cooperation with other stakeholders from the public and private sectors, civil society and communities, define strategic plans for territorial development.

The intervention model applied to local development in the 90s was successful in creating integrated spaces for debating the future of local communities - with very little State participation, as I have already mentioned. Until now, local authorities and LEDAs have kept separate from each other, in much the same way as happened in Central America - although this was due to the existing political situation (internal wars) - and this has had an impact on the majority of the LEDAs that have emerged in Mozambique.

The majority - and in some cases, total - participation of non-governmental organizations (NGOs) from civil society in the creation of LEDAs has made institutional sustainability more fragile, since NGOs have not shown the capacity or the knowledge required. This implies a possible lack of awareness at the time when the LEDAs were created, since the majority have not received any support from their partners, who have not paid any of their contributions since the outset.

In many cases, NGOs, who are the major partners of LEDAs, seem to think that the creation of a LEDA might be a good way of doing business and a good opportunity to obtain funds through the LEDA for their organizations. This situation has led to LEDAs losing their capacity as developers of the places where they work and have specialized in attracting projects of any kind - even health-related projects. I am not suggesting that health is not an important issue and does not form part of LED philosophy; I am merely pointing out that projects of this nature are not really related to LED.

The reference model bases its sustainability on the creation of a trust fund to be held by an intermediary banking or financial institution; interest obtained on the capital would at least guarantee payment of the LEDA's running costs. The LEDA would be responsible for selling its services (technical assistance, capacity-building, business training, etc.) in order to foster its growth. The average investment in the trust fund would be between 300 and 500 thousand US Dollars. I was amazed once to hear a so-called "expert on the subject" make the following statement: "If you don't have money (for the trust fund), it's better not to create a Local Economic Development Agency".

My concern was that if we were promoting entrepreneurship and support for people from rural areas (farmers, peasant workers, masons, carpenters, mechanics, craftsmen, small enterprise, etc.), who live in places where they have no possibilities and far less resources to pay for technical support to enable them to draw up the required business plan that will determine whether their enterprise is viable or not, then which person or institution would be the most appropriate to provide such services? This meant that we would be condemning these people to a heartless and risky form of exclusion.

ART-PAPDEL is gradually building the technical and institutional capacity not only of LEDAs and their national network - REDEL, but also that of local authorities, at different levels, starting with the Districts (comprising towns and administrative offices), Municipalities and Provinces, by providing LED capacity-building at a local level, i.e. in the District Administrations (District Services relating to Economic Activities – Technical District Councils), Provincial Directorates for Planning and Finance (Department for Rural Development) and at a national level, at the Ministry for State Administration (National Directorate for Rural Development, Mozambique National Association of Municipalities - ANAMM, and IPEME - the Institute for Small and Medium Enterprise.

Impetus for LEDAs has been provided by two result-based agreements, which have served to include certain issues that had not been duly undertaken at the outset, i.e. participatory and decentralized planning of LED, the identification and scaling of endogenous potential, its value chains, business opportunities to be found therein and territorial marketing. This was a result of the model used for creating LEDAs; as I have already mentioned, the role of the State was limited to little more than promoting its creation and there was no State participation in its institutional development and even less so as a private-public partner in the territorial development process. There are currently 7 LEDAs that have entered into such agreements.

The outcome of these agreements that provide for joint participation of local state authorities and LEDAs is that LED chapters are being introduced in 7 provinces and 25 districts; approximately 70 value chains and business opportunities have been analyzed and cross-cutting working groups have been created comprising representatives from the public and private sectors in the relevant provinces and in all corresponding districts.

In view of the obvious fragility of the current model of LEDA, based on the rationale for LEDAs, the State has created a Regional Development Agency for the Zambezi River Valley, which is essentially a public agency that has been given a technical and institutional mandate that represents a new paradigm for LEDAs in Mozambique.

Furthermore, since 2006, the Mozambique Government has ensured availability of financial resources through

the Local Initiative Investment Budget (abbreviated as OIIL in Portuguese) for the country's 128 districts, to foster food production and job and wealth creation, targeting the more underprivileged in rural areas. These funds - now known as the District Development Fund - are meant for people who have no access to bank credit or micro-funding because they are unable to provide real security. This problem has been overcome by accrediting the moral solvency of a population or its local authorities by means of a certificate of suitability.

Although the results, in terms of loan repayment, show that a great deal of capacity-building and technical support is still required, the main success of this presidential initiative is based on the educational effect of the fund, commonly known as "the 7-million fund" (approximately 300 thousand USD per year) and its revitalization of local economy by fostering entrepreneurship and by gradually improving income and nutrition, e.g. poultry farming has increased significantly and chicken is now more affordable for the community, who, until recently, only ate chicken on feast days; many other examples of best practices can be found throughout the country.

Since 2010, the Local Economic Development Agencies, through ART-PAPDEL, have taken over their role in providing technical assistance and capacity-building to the new entrepreneurs who benefit from the fund. Capacity-building seminars were held in each of the north, central and south regions and were attended by over one thousand beneficiaries and by the institutions and local authorities involved in the decision-making process relating to the fund, both in the funding stage and in the monitoring, mentoring and evaluation stages. Undoubtedly, this is a unique opportunity to achieve coordinated development of LEDAs.

2. Defining and re-defining the role of Local Economic Development Agencies in thematic areas.

The fallacy of the free market and the prohibition of subsidies, the role of the State and the private sector - the former as facilitator and the latter, as competitors, in the face of subsidized agriculture in the West, indicates that perhaps we should take a more objective look at the role of these two stakeholders.

In the majority of countries where the State acted as a facilitator and the economy was free from any interference or intervention, all wealth-creating mechanisms disappeared, public companies were accused of inefficiency and unfair competition for national and transnational private enterprise; accordingly, even public services like healthcare and education were "privatized" in order to attain a model of deregulated markets and globalization.

The outcome of the most recent economic recession - when in order to avoid the breakdown of the world's financial system, the most powerful countries came to the rescue using public resources to rescue those banking institutions who were responsible for the catastrophic situation, even nationalizing banks in some cases in true Communist style - was that huge amounts of money were drained away to these institutions in order to rescue the wealthy (more than 70 billion US Dollars in North America and a similar or much greater amount in Europe). Never has there been such a fast, effective and forceful response - not even in the worst disasters in the history of humankind have such huge amounts of public funds been forthcoming.

This proved that the role of the State, in case of an emergency, may be redefined to enable it to act in the face of a crisis that threatens the country's macroeconomic and socioeconomic stability. Therefore, if we understand poverty as being a state of crisis and - consequently an emergency - if we take into account that poverty causes deaths every single day, every minute and hour of the day and if we follow the example of the current economic recession, then it should be the State who plays the main role in the fight against poverty, with the same force that it applied to coming to the rescue in the current financial crisis.

Unfortunately, yet again, the effects of the recession punish the poor and the most vulnerable members of our societies and we are witnessing mass protests in Great Britain, Spain, France and previously, in Greece; the same fate is looming on the horizon of many other countries. The financial rescue of Greece, Ireland and Portugal by the EU is a clear example of the effects of the financial crisis.

So, how do we define and/or re-define the role of LEDAs?

LEDAs should no longer remain on the sidelines of territorial problems relating to local economic development and should become responsible partners throughout the process; they should remain separate from the State, claiming impartiality, but should rather become true partners and leave aside their critical role as applicants for financial resources and become co-participants in the planning and implementation of strategic plans for territorial development.

Obviously, their scope or thematic area will be limited to local economic development; this means active participation in close coordination with local State institutions at all territorial levels:

- a) Participation in the territorial diagnosis of the economy and its performance over the past five years, based on a participatory diagnosis of rural areas using techniques such as transversal mapping or mapping of risks and resources. This will be used to identify the behaviour of the economic sectors and will determine the average growth rate.
- b) Participation in identifying territorial potential in order to convert potential to Vectors for Local Economic Development, first, by "scaling" resources and potential markets and subsequently carrying out an Analysis of Value Chains that will provide a clear description of existing problems and most importantly, of solutions in the form of "Business Opportunities" available in each link of the chain.
- c) Participation in the drafting of a territorial economic development strategy based on growth expectations for the economic sectors and on the average growth rate defined in the diagnosis.

- d) Participation in the drafting of an “Action Plan” or “Territorial Agenda for Local Economic Development”, by projecting the growth of the economy in the territory (district and municipal) over a strategic five-year period (medium term) and/or ten-year period (long term).
- e) Participation in drafting Territorial Marketing and accordingly, definition of the investment scenarios based on sustainable development of the “Vectors for Local Economic Development” and their value chains.
- f) Support the local, provincial, national and international investment seminars organized by governments and local institutions.
- g) Participation in processes to create new micro-, small and medium-sized rural or urban enterprise in order to respond to the requirements relating to the purchase of goods and services by the State, in keeping with the concept of “Ethical Public Requisitioning and/or Tendering”, by coordinating public investment and new enterprise.
- h) Providing technical assistance and capacity-building for the drafting of business plans, viability studies, business management, contract management, production management, administrative and financial management, processing, transformation and marketing of goods and services, entrepreneurial capacity-building and business incubation.

3. Essential current and future stakeholders

In respect of the current context and situation of the local economic development process, the essential stakeholders would be: local governments, the private sector, civil society and local communities.

In the case of Local Economic Development Agencies, stakeholders frequently include: civil society (NGOs) and normally, academic institutions, local governments (municipalities) who have a minority representation - unlike local communities.

In future, LEDAs should act in the capacity of partners having an equal representation and an equal responsibility for providing technical and financial support; otherwise, they should be formed by at least 50% public institutions and 50% private institutions and civil society.

The following chart shows the distribution of the competencies and responsibilities of the public and private sectors, civil society and local communities:

Institution	Responsibilities and Competencies
Local government (decentralization = municipalities; deconcentration = districts)	<ul style="list-style-type: none"> • Participatory planning of territorial Local Economic Development. <ul style="list-style-type: none"> • Diagnosis • Identification of Potential and LED Vectors (value chains and business opportunities) • Preparation of Development Strategy • Drafting of Territorial Agenda for Local Economic Development and relevant Action Plan • Preparation of Territorial Marketing • Implementation of the Territorial Agenda for Local Economic Development and relevant Action Plan, including Territorial Marketing. <ul style="list-style-type: none"> • Organize Investor Seminar (promoting territories on local, provincial, national and international levels) • Coordinate public and private investment programme, in keeping with Vectors for Local Economic Development. • Foster a favourable business environment, ensuring legal certainty and appropriate expeditious public services to attract private investment. • Education for development • Community consultation

Public Institutions	<ul style="list-style-type: none"> • Research institutions to produce goods (natural resources) and services (fisheries, livestock breeding, agriculture, mining, hydrocarbons, tourism and other production industries), in keeping with the production specificities and vocation within the territory. <ul style="list-style-type: none"> • Scaling of potential (natural resources) • Market studies and research • Capacity-building institutions, vocational training centres and universities <ul style="list-style-type: none"> • Entrepreneurship • Business plans • Business management • Entrepreneurial capacity-building • Development funds for production and service industries (fisheries, cotton, agriculture, agri-business, SMEs, mining, etc.) in keeping with production and services specific to the territory. <ul style="list-style-type: none"> • Funding of business activities in areas identified by Vectors for Local Economic Development. • Public corporations created in the economic environment: <ul style="list-style-type: none"> • Coordination of production • Strategic alliances • Domestic and foreign markets 	
Private Sector	<ul style="list-style-type: none"> • Confederation (federation and association) of private entrepreneurs (trade, industry and services) • Identify training needs • Coordination with SME sector • Farmer cooperatives and associations of farmers and distributors (rural and urban) • Strategic alliances for production and marketing • Identify training needs • Small business association, micro-businesses, SMEs and traditional crafts. • Organization and coordination to respond to the demand for local requisitioning of goods and services (ethical requisitioning) by local governments • Banking and non-banking financial institutions (micro-funding) • Credit facilities for agriculture, livestock breeding and SMEs. • Credit and savings facilities for citizens 	
Civil Society	a) Local, national and foreign non-governmental organizations (NGOs) providing:	
	<ul style="list-style-type: none"> • Technical assistance • Capacity-building • Training • Funding (micro-funding) • Production • Processing 	<ul style="list-style-type: none"> • Marketing • Services • Information • Education for development • Other forms of support for the production sector
Community	<ul style="list-style-type: none"> • Social control and ownership of the processes of local economic development. • Identification of craftsmen and new entrepreneurs coherent with the Vectors for Local Economic Development, particularly relating to public investment and ethical requisitioning or tendering. • Education for development • Community consultation 	

4. New ideas, strategies, proposals and tools or instruments for a territorial approach.

Point 3 above implies that a territorial approach involving all of the stakeholders in LED and the support of the Local Economic Development Agencies is an “integrating, integrated and fully inclusive” approach, thus making LEDAs ideal instruments to foster territorial development.

I believe that it is a mistake to think that LEDAs should only engage in one type of activity or specialize in only one field. Apart from being involved in the whole participatory territorial planning process, the relevant action plan, the territorial agenda for development and territorial marketing, undoubtedly LEDAs could also target their technical assistance and capacity-building services towards implementation of investment programmes based on the Vectors for Local Economic Development.

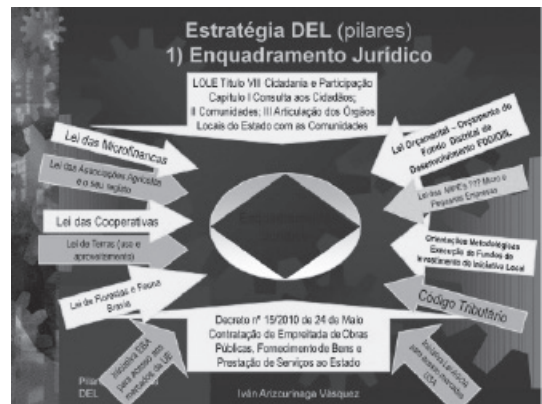
Accordingly, the services delivered by LEDAs should be coherent with the strategies for territorial development and their action plans; LEDAs should also contribute throughout the process to awareness-raising, technical support and capacity-building, thereby becoming an efficient, appropriate instrument.

This whole process requires the creation of a local economic development strategy, whereby the different elements would coincide with territorial planning, territorial marketing, building or reinforcement of the production and marketing fabric, entrepreneurship and support for new enterprise.

For further clarification, I would refer to the work carried out in the province of Nampula in Mozambique; during the participatory stage, seven pillars (elements) were identified that should form part of any territorial strategy for local economic development, namely: 1) Legal framework and scope for action (business environment or climate); 2) Funding (bank, non-bank, micro-funding and funds.); 3) Technical assistance and capacity-building; 4) Services infrastructures for production and marketing (access to technology); 5) Domestic and foreign markets (territorial marketing); 6) LED information system; and 7) Education for development (psychological and behavioural sustainability).

The following is a brief explanation of how each of the elements (pillars) contributes to and forms part of the drafting of a territorial strategy for local economic development:

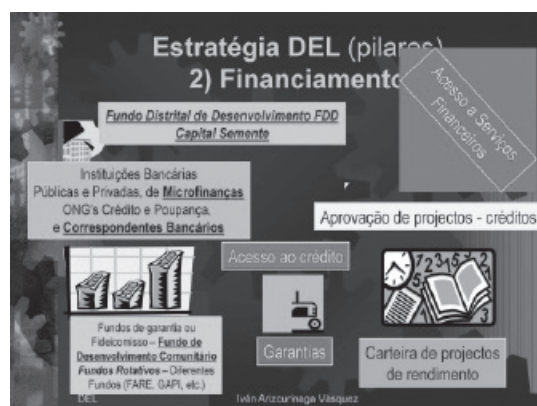
1. Legal framework and scope of action (business climate or environment)



The legal framework should provide a full range of instruments to regulate local economic development activities, including institutional, organizational, taxation, administrative and financial aspects. Accordingly, a study should be made of the benefits of certain laws, decrees, regulations, diplomas and other legal instruments and likewise, of the difficulties that regulations might imply for creating and maintaining a good business environment.

The participatory analysis should lead to the formulation of further proposals for regulation, a positive interpretation of regulations and even the introduction of legislation to improve the business environment. Furthermore, it should provide knowledge on and disseminate the specific regulations governing local and national economies (tax codes, ethical requisitioning - State tendering for goods and services, registration of economic activities and companies, tax incentives, development funds, promotion of investment and export, subsidies, quality regulations and many other aspects) and general information on foreign markets (initiatives to open up markets in the European Union, United States of America, emerging trade in China, India and Brazil, including fair trade, etc.).

2. Financing (bank, non-bank, micro-financing and funds)



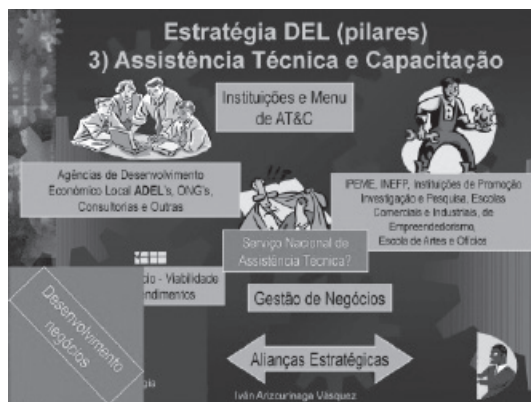
Analysis of all sources of funding for local economic development, whether through the banking or non-banking financial system, micro-financing, savings and credit cooperatives, private funding, non-governmental finance organizations, community savings and credit organizations, development funds (fisheries, livestock farming, agriculture, tourism, trade, etc.), trust funds- surety.

This element should provide information on the range of financial products available, terms and conditions thereof (interest, repayment period, surety, etc.), risks and complications, and when correctly applied, benefits.

Furthermore, this will foster territorial access to funding (“bankarization”) in different forms, i.e. through community savings banks, bank and/or micro-finance offices and branches and actual banks.

It should be borne in mind that, at a local level, one of the main resources for revitalization of the economy is the general State budget. As a result of decentralization and deconcentration, the allocated amount is frequently paid directly to the account of local governments, who very often have no bank offices in their area; accordingly, it would be worthwhile defining a negotiation strategy that would encourage financial institutions to be set up throughout the territory.

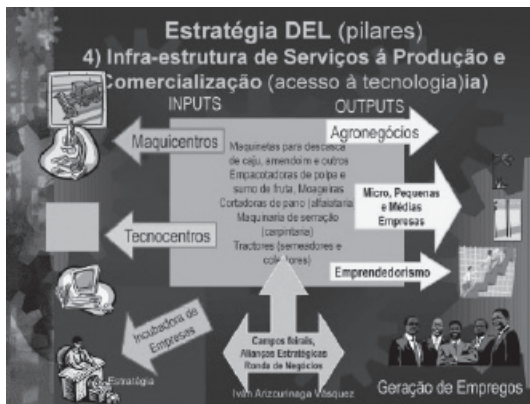
3. Technical assistance and capacity-building



This pillar promotes availability of appropriate technical assistance and capacity-building for operators in local economic development, stimulates the fostering of entrepreneurship and new investors, the creation of technical assistance and capacity-building for micro-, small- and medium-sized enterprise based on the (endogenous and exogenous) Vectors for Local Economic Development, their value chains and business opportunities.

This strategic pillar is perhaps one of the most important in a strategy for local economic development, since it should support the creation and strengthening of local capacities and foster strategic alliances among producers, marketers and consumers, so that all will benefit. In this sense, the activities of Local Economic Development Agencies will determine the success of the proposals for territorial development.

4. Services infrastructure for production and marketing (access to technology)



In keeping with the LED Vectors, this pillar promotes the installation of technocentres, machine-centres, company incubators and basically, access to technology, in order to consolidate business structure for production and marketing and to create spaces for exchanging production and experiences, foster strategic alliances to respond to market demands for quality, suitability and competitive quality standards.

This strategic element determines the “sustainability” of local economic development by guaranteeing that production meets competitive technological levels and ensures access to technology for new entrepreneurs and SMEs that would otherwise be unable to have access on their own.

5. Domestic and foreign markets (territorial marketing)

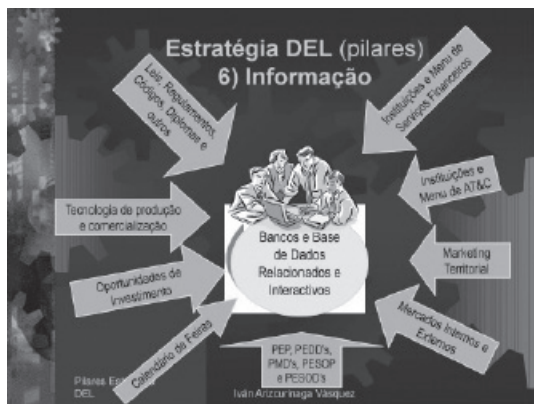


This element builds on the concept of endogenous development by identifying local territorial potential and its scope, value chains and opportunities, coordination for introducing local production in domestic and export markets.

The most important aspect of this pillar is that it creates a territorial brand that is identified by a certain flagship product or natural resource that is a source of pride in the territory. Here, it is not only the brand product that is important but also other potential products from the territory - not always of an economic nature.

Thus, we see branded products being used to promote other services available in the territory, e.g. health services (high quality hospital care), education (primary, secondary, vocational and university), living conditions (quality of its drinking water, cultural assets, tourist attraction, hotels, restaurants, access roads, etc.), the purpose being to attract the end consumer of the product to visit the territory as a tourist or as a future investor.

6. LED Information System



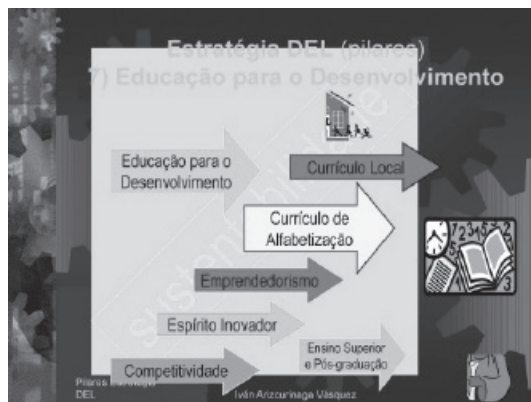
The aim of this pillar is to foster access to information by implementing a business information system using an interactive related data base that allows information to be used efficiently, effectively and appropriately.

It is absolutely essential that the local population have access to full, updated information on the legal framework (laws, decree, regulations, etc.), methodologies for capacity-building and technical assistance and a list of the institutions providing these services, a list of the financial services and banking and non-banking products for financing LED, conditions for access to public funds for development of production sectors of goods and services, prices, markets - either input markets or internal or external products, fair trade, and trade show calendars.

Information on both state-of-the-art technology and any alternative and/or intermediate technology that guarantees competitive quality standards and requires intense labour, creates decent jobs and makes use of local techniques (local material).

It is also essential for communities to be fully informed of the content of Strategic Development Plans at all territorial levels, annual operational plans and relevant budgets by funding source.

7. Education for Development (psychological and behavioural sustainability).



Within the strategy for local economic development, this pillar is unquestionably the most important since it essentially guarantees the sustainability of the LED process. It is important that the concepts of entrepreneurship, competitiveness and innovative spirit be included in the curriculum for infant, primary, secondary, vocational and university education, in order to create the attitudes and behaviour required in this unipolar, globalized world.

At a local level, the curriculum should be designed to take advantage of the potential of the "LED Vectors" in order to instill in new generations a sense of ownership in respect of the territory's natural resources, thereby making it easier for them to remain in their land knowing that they have resources for their daily and future livelihoods.

It is important for the educational system to assimilate the need to introduce these concepts and improve them by teaching entrepreneurial development techniques that will enable people to prepare business plans, business management, viability of enterprise, negotiation techniques, strategic alliances, corporate and teamwork.

5. Essential challenges to be faced

The challenges to be overcome by local economic development are basically the institutionalization of the participatory paradigm and community consultation during the conception stage of the strategic and operational instruments for development.

Local Governments (through decentralization – deconcentration) should ensure unrestricted inclusion of LED stakeholders, i.e. the private sector, civil society and local communities that are the subject and object of human development, not only in the consultation phase but more importantly in engagement with and commitment to the processes, .

The challenges for Local Economic Development Agencies that have been mentioned throughout this document are summarized as follows:

- a) Review of their Bylaws to allow an equal participation of the State, the private sector and civil society in the institution - possibly, in the form of a joint venture with private and State capital, with equal representation in the company's governing bodies and clearly defined competencies and obligations.
- b) The sustainability of LEDAs should not depend on the transfer of public resources to be subsequently spent by private partners; if this were the case, there would be no point in talking about a public-private partnership. If the State is the only source of funding, what is the point of creating a LEDA under private law?
- c) It has been clearly established that a LEDA is a necessary public service, particularly at this point in time when the recession is taking an unusually high toll among the more disadvantaged; accordingly, State participation is decisive and should furthermore be made part of its mandate and competencies.
- d) LEDAs cannot be limited to merely providing business services; they should become involved in all stages of territorial diagnosis, identification and scaling of potential, development strategies, action plans, territorial marketing, definition of investment scenarios, providing support to coordinate the elements comprised in the LED strategy with local stakeholders.

e) LEDAs should also help to attract further investment and funding in order to support reasonable and sustainable operation of the LED Vectors. The integration of LED issues in participatory planning processes culminates in its first stage in the "Investment Conference and LEDAs should be one of the main partners responsible for its implementation.

Undoubtedly, each territory is different - even within the same country; however, it is also obvious that there have been certain historic moments that have led to the creation of LEDAs, using a standard system that responded to the needs at that time. It is even more obvious that nowadays the factors have changed and in this dynamic process, we have to adapt our conceptions in a way that avoids dogmas and is much closer to reality.

Unfortunately, the resources allocated to finance development of the south are increasingly more meager and the attention paid to the more disadvantaged sectors is even more precarious; therefore, it is essential that local governments accept the responsibility established in their legal system, i.e. to foster development and fight against poverty, and LEDAs are the ideal instruments to help them in their efforts. It is essential that LEDAs be declared public necessities and that we establish a clear strategy - and more importantly, public policies that will contribute to the institutionalization of this approach and allocate public resources from the State budget, using funds obtained from taxes on equity capital and the channelling of socially responsible resources for bilateral and multinational international cooperation, particularly the form of decentralized cooperation that has been fostered by the UNDP - ART initiative in order to strengthen territorial links.

This document contains no references to bibliography; the proposal emerged from my experience in the Central America of armed conflicts, in the South America that is avidly searching for solutions and in the Africa where her people are doomed to oblivion and indifference.

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GOVERNANCE: LOCAL PRODUCTION ARRANGEMENTS AS BOOSTERS OF SOCIAL CAPITAL IN BRAZIL

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There is not a large amount of work aimed towards the research of LPAs (Local Production Arrangements) from the point of view of social capital and its possible expansion within the arrangement. Most of the documents available started from the idea that LPAs only use the already existent social capital, without verifying if they can also generate such capital.

For Nazzari, et al. (2004,p.5) local sustainable development can be understood as:

[...] a sustainable and lasting process of changes in the human, social and environmental aspects, resulting in the improvement of people's life conditions, allowing an increase of options and opportunities. But for this process to be fully successful, some of the structural requirements need to be met, where one of the predominant factors is the total commitment of the community, as the main agent of development. Changes in the environment and in people will be necessary, and this will cause an alteration in the ways of life.

For all this to happen, local development cannot be characterised, summarised or aimed as only local economic development. It also has to be social-local, environmental-local, political-institutional-local, cultural-local and physical-territorial-local development, as pointed out by Franco (2002, p.90).

In this regard, Franco (2002) states that the population needs to have the capacity of getting hold of, and increasing their income. The author shows that human and social capital is the basis of development. Otherwise, and even with a direct distribution of income (donation) or real increase of wages, the possibility of development will be limited if social and human capital is not capable of getting hold of that income and making it increase.

According to the author, poverty is not just a lack of money, but also the lack of a capacity to develop potential. Poverty is not a lack of income but of development, and development is different to growth (Franco, 2002).

The author uses the concept of social capital as the capability of cooperation within society, of network creation, and of regulation of their problems in a democratic manner, that is, of being, the community and the human capital, the ones that create and promote entrepreneurship as a capability of transformation and innovation.

Becker (2003) states that there is a current renewed importance of what's local and is associated to regional cultures. He says that some male and female authors state that depending on the cultural values accumulated regionally or the existing social capital, some regions will be able to respond positively and actively to the regional challenges of contemporary globalisation, by constructing their own models of development. For this author, development is a result of democracy, and democracy, in turn, is the result of social organisation, that is, of the social commitment of the community.

Therefore, when societies are more democratic and have a stronger political participation of population, they are then more developed societies.

1. Description of LPAS

For the Brazilian Development Bank, BNDES (2007), LPAs are clusters of companies of a certain sector or type of production line.

Corporali and Volker (2004) agree on the concept of LPA as a particular type of cluster, formed by SMEs, and grouped around a profession or type of business, where the role played by the formal and informal relations between companies and the rest of the institutions is highlighted. Companies share a common culture and interact, as a group, with the local socio-cultural environment.

According to Brito (2003, p.3), Redisist defines LPAs as:

[...] territorial clusters of economic, political and social agents, which are focused in a specific set of economic activities, and present links, as well as new elements. The participation and interaction of companies is generally involved. They can either be producers of end goods and services or providers of input and equipment, advisory services, marketing, customers, etc. These can have many different ways of representation and association. Other public and private institutions are also included, such as the ones related to training on human resources (technical schools and universities), research (development and engineering), politics, promotion and funding.

Haddad (2004) defines LPAs as a micro-business concentration of any type of companies with a differentiated degree of cohesion and common characteristics, which can be: a) horizontal, in one same sector or in related sectors (for example, leather and shoes or wood and furniture); b) vertical, which are sectors organised in a type of production line; c) mixed, with a horizontal and vertical sectorial structure (for example, the animal protein produced in the west of Santa Catarina).

Cassiolato, Lastres and Szafiro (2000) indicate some of the main features that must be taken into account when studying these clusters. These are:

- a) the territorial dimension;
- b) diversity, activities and male and female actors;
- c) tacit knowledge
- d) interactive innovations and learning; and
- e) **governance**.

Governance refers to the different ways of coordination between the agents and the activities involved during the whole process that goes from the production to the distribution of goods and services, as well as in the activities of generation, dissemination, use of knowledge and innovation. There are different forms of governance and hierarchies in the production systems and arrangements, representing differentiated forms of power in decision making processes (centralised and decentralised, more or less formal). The management of the arrangement can be carried out by an external technical team or by a group of male and female business people, designated by male and female participants.

Amaral Filho (2002) stresses the importance of the different elements: social capital, collective strategy of organisation of production, collective strategy of the market and the political and institutional articulation, as a vital element for the development of an LPA.

According to the author, social capital is the accumulation of social commitments built by the social interactions in a certain territory. This type of capital is expressed through trust, rules and chains of social relations. And, unlike conventional physical capital, which is private, social capital is public. The main aspect of social capital is trust, built socially through continuous interactions amongst people. The accumulated social capital in a certain production arrangement is the main condition for cooperation, network creation, associations and consortiums of small male and female producers and the dissemination of knowledge. It is also the main source of coordination and governance of LPAs.

Maciel (2001) reinforces this idea by stating that stable relations of trust, reciprocity and cooperation are seen as tools to strengthen the relations amongst economic agents and improve the efficiency of the institutional arrangements amongst companies and inside of them.

Regarding the collective strategy of the organisation of production, it has to do with the coordinated decisions between all the agents involved in production, in relation to what, for whom and how to produce. It is here where the association of companies shows its strength when compared to big isolated companies, because it defines the equivalence of the advantage related to the level of acquisition of raw material, use of machinery and equipment and production in general. And it is also at this point where the collective learning, the source of innovations and competitiveness are shown and processed. The contribution of the social capital is essential for the success of this strategy.

The political and institutional articulation, which also derives from social capital, is the mechanism by which the production arrangement is related to the public and private organisations of support to the micro, small and medium-sized companies or to local development. Experience has shown that more social capital in a certain cluster of companies translates into a bigger and more effective articulation with organisations and institutions.

Haddad (2004) states in a categorical manner, that for an LPA to have success, the region must have a social organisation, because several aspects must be met for development to happen. These aspects are, amongst others: an increasing process of decision-making autonomy; an increasing capability of raising and re-investment of the economic surplus; an increasing process of social (and digital) inclusion; an increasing environmental awareness and action, and an increasing collective perception of belonging to the region.

It is proven then that the 'social capital' element is of great importance in the strategy of LPAs, being one of the pillars for this model. The social capital accumulated in the region also tends to strengthen the capacity of social organisation of local male and female agents, thus contributing in a spontaneous manner to improve the use of future opportunities for growth and local development.

It is known that the model of the LPA shows itself in the current decade as one of the alternatives in the search of growth and development of the regions.

2. Social capital: concept and description

Social capital can be defined, in a wide manner, as social networks, the reciprocities that emerge from these networks and their value in the achievement of mutual objectives.

Green (2000) defines social capital as networks of social relations characterised by rules of trust and reciprocity.

Fukuyama (1996) defines social capital as the capacity derived from the trust in a society or in certain parts of the society. The author points out that the difference between social capital and other types of human capital is that it is created and transferred by cultural mechanisms, such as religion, tradition and historical habits.

Franco (2001, p.53) stresses that:

[...] the different aspects of capacity to which the concept of social capital refers to, can be summarised on the capacity of living as a community, *lato sensu*, that is, of interacting socially, of creating and maintaining contexts where the ethos of the community are shown, and where values and virtues that promote the mutual acknowledgement, trust, reciprocity, mutual help, solidarity and cooperation are present.

Dotto (2003) analyses the concept of social capital of Franco (2001) stating that it is referred to the capabilities of people of a certain society of subordinating individual interests to larger groups; of working together, aiming towards common objectives or mutual benefit; of associating amongst them and forming new types of associations; of sharing values and rules to form stable groups and organisations and to build and share management. In short, living as a community.

Dotto (2003) has seen that the work of Putman (2000) shows that in civic communities, characterised by the presence of a committed citizenship and encouraged by a civic spirit, by egalitarian political relations and by a social structure based on trust and collaboration, there is a strong established relation between the institutional performance and the community.

For Barquero (2001) social capital is a process and the empowerment tool of citizenship which can change the social relations and social exchanges to generate more solidarity and cooperation networks. Thus, an increase of social capital may and will probably have positive effects because of its impact on democracy and on the socio-economic development.

Putman (1996) identified through his work that some (Italian) regions see themselves favoured by dynamic systems and parameters of civic participation and that are able to favour the presence of an effective and responsible government. In the meantime, other regions are lacking of truly vertically organised politics, and have a social life characterised by fragmentation, by isolation and by a culture dominated by distrust.

Putman (1996) concludes his study with the observation that the better the performance of a regional government in a certain region, the larger the quality of local governments.

With all this, it is possible to come to the conclusion that the development of the government is determined by civic traditions and social capital (Dotto, 2003, p.235).

For Staple apud Durston (2003, p.11) "empowerment has been defined as the process through which authority and ability are obtained, developed, are taken or are facilitated". Spellerberg (2001) already stated that people have authority or are capable (are empowered) when they have a certain control on the institutions and processes that directly affect their welfare.

Dotto (2003) states with regards to Putman, that the author innovates in the sense of giving a fundamental meaning to social capital in relation to its own ability to encourage the production of the human being and, as a consequence, to be able to promote development as a whole.

Spellerberg (2001) also says that human beings are social beings that have relations with others and with the environment where they live since they are born. Thus, the author interprets social capital as the result of these approaches. She then defines social capital as the "relations amongst the male and female agents (people, groups and organisations), which create the capability of acting for a mutual and collective benefit of a common aim".

In short, according to the author, social capital is a social resource that is born and is incorporated in the relations amongst people. Grootaert et al. (2003, p.05) show that those resources and relations are social, as they are accessible only within and through social relations, unlike physical and human capital, for example, which essentially belong to people.

For Coleman (1990), social capital is a consequence of the participation of people in activities which involve sociability. The author analyses the concept to prove how social links and shared rules can promote economic efficiency and can also contribute towards the education of people, so that they can find a job and accumulate capital.

Social capital is not individual, because it develops itself and gets stronger in different domains, dimensions and relations. It is then considered as multidimensional.

Woolcock (2000), in Bandeira (2007, p. 101), states that:

"[...] there is an emerging consensus on the definition of social capital as the norms and networks that facilitate collective action". Furthermore, the author highlights that it is also necessary to distinguish between the sources and consequences of social capital. The main sources are formal and informal social networks. Trust, tolerance and rules of reciprocity as well as other attitudes and types of behaviour increase the propensity to cooperate and they should be considered the result of interaction in the networks that make up the sources of social capital.

According to Woolcock, regarding the factors used to identify the existence (source) and intensity (consequences) of social capital in a region, Bandeira (2007) considers that primordial factors are: "participation in voluntary associations" and "informal social networks", both of which are variables which identify the existence of sources of social capital; and "political participation" as well as the "trust" variable. These are primordial factors in ascertaining the intensity (consequences) of the social capital in the region under study.

Secondly, the author says that the first factor, participation in voluntary organisations, is one of the most widely utilised indicators in the analysis of social capital. In the literature, the existence of a dense network of civil organisations in a given territory has been considered one of the main indicators. The chains of relationships established within the organisations constitute one of the most important types of social networks that exist in the regions, and so the interactions which occur in them are considered to be important sources of social capital (Bandeira, 2007, p. 101).

In this situation, it is important to highlight one of the discoveries made by the author in his research. After identifying the level of participation in meetings of voluntary associations in the macro-regions of the State of Rio Grande do Sul, the results were very similar for each micro-region (Bandeira, 2007, p. 103). In this case, it was demonstrated that socio-economic conditions and the level of schooling had little effect on the formation of social capital.

Spellerberg (2001, p. 10) agrees with Bandeira, stating that people generally have greater access to social capital through participation in community and voluntary associations.

As regards informal social networks, Bandeira (2007, p. 112) says that they are made up of relationships which could be described as **informal sociability**, and include activities such as, for example, visits to family and friends, meeting with friends at home or taking part in different types of activity with other persons.

Bandeira (2007) speaks of the consequences of social capital, when dealing with the "political participation" variable, highlighting that actions such as membership of political parties, participation in demonstrations, elections or protests, participation in political meetings, donations to political parties, work done for candidates and visits to a political party to solve community problems are just some of the sources which intensify local social capital.

Lastly, according to Bandeira (2007, p.117), the "trust" variable is considered in literature to be one of the main consequences of social capital.

The variable used most often is “generalised trust”, i.e. trust in other people, institutions and organisations.

Flores and Rello (2001) summarised the concepts of social capital, its sources and consequences after reviewing studies on this concept by leading authors and institutions.

The concept of governance employed here stems from the general notion of the establishment of local democratic practices through the involvement and participation of different categories of stakeholders:

- - the State, at its different levels;
- - local private enterprises;
- - citizens and workers; and
- - non-governmental organisations.

However, this approach must not ignore that large companies located outside the cluster actually coordinate technical and economic relations along the production chain, thus significantly conditioning local decision-making processes.

Markussen’s classification, despite focusing on experience in the US in this area, provides a basis for constructing a typology of **governance** for countries like Brazil since it allows us to consider the aforementioned problem. This classification considers the existence or absence of a local company or institution that controls the technical and economic relations along the production chain.

On that basis, an initial and simple classification could be based on one characteristic: the absence of any local form of **governance** or the existence of at least one large company that operates as a central point or hub at the centre of a cluster of local companies.

In other words, from the **governance** standpoint, either local enterprises organise themselves in “networks” or **governance** is achieved through “hierarchical” forms.

In terms of “networking”, there are clusters of micro and small enterprises that do not contain large locally-established companies, and which are able to coordinate economic and technological activities. These clusters, evidencing the lack of local forms of **governance**, are the typical micro and small businesses analysed in literature. **Governance** in this case is a typical characteristic of “networks”.

Two examples of such arrangements can be identified, with only one difference between them. Firstly, micro and small enterprises that appear due to the existence of local scientific and technological institutions of excellence. These include arrangements of small technology-based firms that specialise in scientific and technological fields such as biotechnology, information technology and communications, advanced materials, etc. In these cases, specific fields of knowledge and expertise will determine the specialisation of clusters to the detriment of certain sectors. Different public incentives may be offered (e.g. incubator programmes) for the development of such enterprises. Despite their importance, these programmes are insufficient for such enterprises to grow and survive and for the development of the interactions described above.

In this case, local **governance** is achieved through a combination of public and private incentives.

The second type of arrangement, formed by micro and small enterprises with **governance** structures in the form of networks, shares characteristics with the so-called “industrial districts” in Italy, structured around specific sectors, e.g. footwear, clothing, etc., and where the specialisation of clusters is predominantly sectorial.

Another type is characterised by hierarchical governance. Two types of hierarchical governance are described in literature. Firstly, when one or more companies operate as an “anchoring” company in the regional economy, together with suppliers and service providers. Classic examples are companies, often vertically integrated, such as Boeing in Seattle (USA) and Toyota in Toyota City (Japan).

In this case, anchoring companies build important technical and economic relationships with local suppliers, creating a virtuous circle of cooperation, encouraging the development of skills and establishing a systemic competitiveness.

In addition to **governance**, another dimension is important for characterising the reality of the situation in Brazil. The main market served by each arrangement is an important dimension since within local production arrangements emphasis is placed on proximity between the different stakeholders with a view to pooling together capacities and collective learning processes.

In a country like Brazil, where differences in income levels are huge, this dimension is particularly important because these differences in demand behaviour are articulated according to local specificities. A local production arrangement is often only able to satisfy the specific demand of a given region. This is particularly true in the poorest regions, such as the North and Northeast of the country.

The purpose of production is therefore important for understanding the operating logic of relations between enterprises and institutions and for proposing alternatives that aim to transform clusters into effective arrangements and local production systems. Some reviews of empirical studies carried out within the scope of "networks" (Cassiolato and Lastres, 2000; Villaschi and Fields, 2001) highlight important dimensions of learning processes, training for innovation and cooperation structures, which differ according to three targets of local production. Differentiation occurs when the target of production is the:

- local/regional market (firms belonging to the cluster that provide inputs to large locally-established companies or that sell final products in these markets);
- regional/national market (located in a larger economic space);
- national/international market (competition takes place in larger spaces).

Finally, a third dimension is necessary because the two described above have no specificity related to the basic premise of this analysis: the importance of innovation for achieving competitiveness and the local dimension of innovation.

In this respect, the degree of territoriality of production and innovation activities is critical.

The key aspect of this third dimension of analysis is the extent to which the necessary capacities are incorporated locally for the development of activities in which innovation is the main component.

Based on the definition of local production arrangements (hereinafter "LPAs") and systems, this study provides an insight into the different forms of governance of arrangements and systems encompassing territorial parameters and production flows.

LPAs in Brazil are local production arrangements structured on a hierarchical basis, in contrast to those in which governance is achieved through networks. They are coordinated locally in the place where production activities are performed, resulting in strong impacts on the organisation of production and the degree of territorialisation of production activities. In this case, the LPA in the metallurgy and machinery sector in the State of Espírito Santo, which mainly produces for the local market and is coordinated by several large companies in the steel sector, carries on part of its production activities territorially.

The automobile LPA in Minas Gerais, which is controlled by a multinational (FIAT), produces for the national market and has a high degree of territorialisation of activities, as well as the steel LPAs in the State of Espírito Santo. The first arrangement was created before trade liberalisation in the 90's and consolidated a productive and innovative structure thereby establishing a high degree of territorialisation of activities. Trade liberalisation and certain measures taken since then are reducing the degree of territorialisation of LPAs.

Other LPAs with hierarchical structures but which produce for the international market include the aeronautics cluster in San José dos Campos, in the State of Sao Paulo, the tobacco LPA in the State of Rio Grande do Sul and the cocoa LPA in the State of Bahia; the LPA in San José dos Campos is highly territorialised while the other two arrangements present average levels of territorialisation. The production activities of the former LPA are concentrated in EMBRAER, a locally owned company, while the production activities of the other two arrangements are concentrated in a group of multinational companies.

These arrangements differ mainly in terms of the ownership of capital of the so-called anchoring companies that coordinate the activities of micro and small enterprises. Thus, since the liberalisation of trade, when coordination is performed by the subsidiaries of multinationals, the degree of territorialisation is lower and the number of training and learning processes is also lower. Conversely, when local coordination is carried out mainly by locally-controlled enterprises, the degree of territorialisation is greater.

The situation is less clear in the case of governance through networks, although greater territorialisation is normally associated with segmented production for the national market. This category includes, for example, the biotechnology clusters in the State of Minas Gerais, the software LPA in the State of Rio de Janeiro and the State of Santa Catarina, the soybean LPA in Paraná State, the wine clusters in the State of Rio Grande do Sul, the furniture LPA in the State of Sao Paulo and the advanced materials LPA in the city of San Carlos, inside Sao Paulo.

The factors accounting for the development of these LPAs are the high intensity of local activities or the development of local industrialisation. The ceramics LPA in the State of Santa Catarina and the tropical fruits LPA in the Northeast are in the same situation despite enjoying greater exposure to international markets, mainly due to the fact that the most important companies in the LPA are local firms.

The marble and granite LPA in the State of Espírito Santo is coordinated through networks. This LPA produces for the international market and through a territorialisation approach, with limited capacities and local learning processes. The cluster of decorative stone companies in Rio de Janeiro presents a low degree of territorialisation, since it only produces for the local market.

Other examples of arrangements coordinated through networks with an average degree of territorialisation are the leather and footwear LPAs in the State of Paraíba, the textile and clothing LPAs in the State of Santa Catarina, and the furniture LPAs in the States of Minas Gerais, Espírito Santo and Rio Grande do Sul. The first LPA supplies the local market while the others mainly produce for the national market. The leather and footwear LPA of Rio Grande do Sul produces for the international market. Finally, the textile and clothing LPA in Rio de Janeiro, coordinated through a network and supplying the national market, has achieved an average level of territorialisation.

This analysis suggests that arrangements controlled by large firms that produce for the national market engage in more prospection work the higher the degree of territorialisation.

Meanwhile, the high/medium level of territorialisation of LPAs coordinated through networks is the result of different specificities. In the case of wine clusters in RS, marble and granite LPAs in ES and tropical fruit LPAs in NE, part of the territorialisation is due to the location of natural resources. However, in these cases, territorialisation has gradually increased as a result of the specifications associated with work and technology.

With respect to high technology LPAs (the aeronautical LPA in SP, the telecommunications LPA in Campiñas and Parana, the software LPA in Santa Catarina and the advanced materials LPA in Rio de Janeiro and San Carlos), the government has played a key role in the process of production and innovation capacity building in the different locations through the introduction of industrial and technological policies, contributing strongly to the territorialisation of economic activities and specifically innovation capacity building.

It is worth highlighting cases in which the degree of territorialisation has diminished as a result of the process of trade liberalisation and other structural reforms in the 90's. The case of the telecommunications cluster in Campiñas in the State of Sao Paulo is perhaps the best example of this, since the reduction in the degree of territorialisation of activities is evident. The LPA was consolidated through a clear process of internalisation of activities aimed at strengthening industrial and innovative capacities, resulting in a high degree of territorialisation of activities. Meanwhile, the territorialisation of activities in that area is basically the result of an improvement in the qualifications of workers and no longer a result of local dynamics.

According to Humphrey and Schmitz (2000), there forms of local governance may be public, private or mixed. By enhancing the competitiveness of companies in the cluster or arrangement, governance can foster the development of incidental external economies [...] and external economies generated by deliberate actions carried out by local stakeholders to promote production activities and stimulate the rapid dissemination of knowledge (Suzigan, Garcia and Furtado, p.9).

Governance in local production arrangements has played a key role in the process of cooperation and interaction, mainly with respect to external economies achieved through deliberate actions undertaken by local stakeholders. Different initiatives were carried out through the articulation of governance, including, most notably, a special and exclusive credit facility with the Federal Economic Savings Bank for the clothing sector and a National Development Bank for all local production arrangements in Brazil, the establishment in the municipality of Apucarana of a Fashion Centre and institutionalisation within the context of the Development and Integration Council for the South of Brazil (CODESUL) of the LPA network in the southern states of Brazil and Mato Grosso do Sul, in order to promote the balanced and sustained development of the production sector.

3. Conclusions

Development is a constant quest for regions and countries all over the world.

It is a concept that is constantly evolving and in recent decades it has ceased to be considered simply as the evolution of income per capita but rather as development with social equality and inclusion, conservation of the environment and respect for local culture and institutions.

Development is always achieved at local, regional and then national level.

Thus, specific regions are conditioned by a series of variables that must be identified, including the quality of local technocrats, the entrepreneurial class, the political class and civil society.

This article has also highlighted the emphasis placed on strategies and policies in Brazil. One strategy for achieving local development is through the creation of LPA (local production arrangements).

What distinguishes a local production arrangement, whether embryonic or consolidated, from a simple cluster of companies is its capacity to organise itself collectively, collaborate and disseminate knowledge. Therefore, it is clear that social capital is a vital conditioning factor for the existence and success of LPAs.

An LPA takes advantage of existing social capital in local society.

Since this social capital is so important for LPAs, it is conceivable that the structure of such arrangements may also generate social capital flows in order to raise their stock. As a result, the whole community in which the LPA is based can and must benefit from this increase in stock.

Despite the rich debate accompanying the development of social capital as an effective instrument for driving regional development, in order to promote further analysis and, at the same time, resolve matters of consensus or dispute, much still has to be done.

It is clear that the existence of, and increase in, the level of social capital in a given region/community cannot, in itself, guarantee the sustained growth and development at local level, but if high levels of this variable are achieved, the greater the likelihood that economic prosperity will not be achieved.

It is known that LPAs mainly seek competitiveness and the survival of the companies operating in the market. It is also known that clusters, in order to achieve this goal, need stronger social relations in order to provide the LPA with the capacity for collective organisation, collaboration and dissemination of knowledge among individuals. Thus, the aim of this study was to determine whether LPAs, as a production strategy, also strengthen social capital.

Increasing flows of social capital and consequently the level of this type of capital at local level is imperative in order to strengthen the internal structures of LPAs, collaboration and organisation. Actions that stimulate social capital will strengthen the community and remain as a legacy for the region, through empowerment to citizens.

Although the dissemination of knowledge, solidarity and sense of belonging are promoted by stakeholders in LPAs, some opportunistic attitudes can still be observed; to avoid this, actions designed to eliminate such acts need to be implemented democratically because, at the end of the day, these types of actions can undermine the stock of social capital and the foundations for territorial economic and social development.

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EMPLOYMENT POLICY AND LOCAL DEVELOPMENT

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Summary

The economic crisis we have been suffering since late 2007, with the resulting loss of jobs, has once again placed in both the academic and political debate the necessary use of instruments of Active Labour Market Policies (ALMP) to seek a better performance of labour markets where labour demand sinks in line with economic stagnation -and even faster-.

At the same time, however, the already extensive academic literature that seeks to evaluate the effectiveness of programs that develop these policies has been pointing out their limitations to both promote job creation and improve the quality of work. Without questioning the positive outcomes resulting from implementing these policies, this literature emphasizes the presence of a number of adverse effects that reduce the effectiveness thereof. The risk of such adverse effects increases when actions promoted by different administrations concur in the same space. This is due to the observed lack of coordination between different administrations, which limits, or even reverses, the positive effect of these policies.

This paper examines, in sequence, the nature of the employment shock we are experiencing, the policies that are being developed to tackle it and, lastly, the potential use of ALMPs, considering their possible effects, the regulatory framework in which they operate and the reform processes that are open in Europe. And all with an eye on the actions that are performed in local areas.

¹ The author of this text wishes to express his gratitude to Laura Pérez Ortiz, Doctor in Economics and associate professor at Universidad Autónoma of Madrid for the help offered in searching and selecting the materials used to carry out this work and for her critical comments, always valuable towards a better result thereof. However, as is obvious, the final result is the work of the author, who must be attributed the reflections, comments and appraisals therein contained.

1. Introduction

The debate on Active Labour Market Policies (ALMPs) has been extensive over time and in the academic contributions made, since the generalised use of these policies started in developed countries in the nineteen-seventies. Specifically in the northern European countries, the experience accumulated over time has been very fruitful, leading to an in-depth debate on the efficiency of these policies (Sianesi, 2004).

The origin of these policies can be traced to the nineteen-seventies, when the systemic crisis gave rise to questions regarding the demand policies that had been implemented for several decades after the Second World War as an effective solution to overcome the low stages of the economic cycle. It is at that moment when, from certain ideological points of view, supply policies are designed and implemented with the aim to alter the conditions of productive supply, as a more effective method or mechanism to solve depression stages in the economy.

Since then, the limitations of this type of activity have become evident over time. First of all, by verifying that problems regarding labour market imbalances are essentially a problem of demand, and primarily so if they arrive *en masse*. The quantitative mismatch that takes place in the labour markets during the depression stage essentially originates in the steep decline in labour demand that derives into a decrease in economic growth rates.

To this regard, actions on supply, as will be shown throughout this paper, do not have any short-term effects or intense mid-term or long-term results from a quantitative perspective. Thus, active labour market policies have turned towards seeking qualitative rather than quantitative objectives; for instance, with regard to human capital or even equal opportunities to access the labour markets with the aim to overcome the difficulties faced by certain collectives in this respect.

Secondly, the great differences that exist in the intensity and variety of the policies implemented should also be taken into account, together with contrasted results in terms of improvement of the equilibrium conditions of the labour markets over time and between the different economic and institutional spaces. Similarly, the very nature of the programs implemented conditions their efficiency depending on the institutional variety on which they are implemented.

More particularly, limitations of this type of instrument to encourage expansion of employment become evident during the depression stages of the economic cycle, as the one undergone by the developed world these last four years. In view of the employment crisis derived from the economic crisis, the sights of politicians and academics have turned once again to within the labour market, seeking amendments to its behavioural patterns that may contribute to stopping the bloodshed and destruction of jobs that characterises this stage or even to generate new jobs to substitute those that have been destroyed. Taking into account this social demand, ALMPs have been increased without it being clear whether positive results will be obtained in view of the intensifying employment crisis that our economies are suffering.

Taking all of these issues into account, this paper tries to analyse the basic milestones of this employment crisis and the existing demands from the social and labour partners towards amending the guidelines for action on the labour market. This will be followed by an in-depth look into the possible limitations of so-called Active Labour Market Policies to revitalise labour market demand and to alter the nature and guidelines of action on labour market supply. The institutional context in which the reform of this type of policy has lately taken place will then be analysed briefly, ending with some conclusions on the effects of these reforms, essentially considering the local spheres in which these policies are devised and implemented.

2. The employment crisis

The current crisis, its evolution and future development have already been debated extensively. Much common ground and many differences already exist with regard to its origins and its perpetrators. However, we're still far from reaching a certain degree of consensus with regard to a theoretical interpretation thereof. As is usual amongst economists, we shall reach not one but two, three or even four interpretations, some of which may possibly be mutually exclusive. Economic Science has never been a homogenous territory and the limits between "science" and "ideology" in the field of the social sciences are blurred to say the least.

This is no trivial matter as the diagnostic tests performed will give rise to proposals for action, the combination of economic policy instruments that must try to stop this economic decline we're immersed in and, more specifically, the blood bath that our labour market is suffering with regard to jobs.

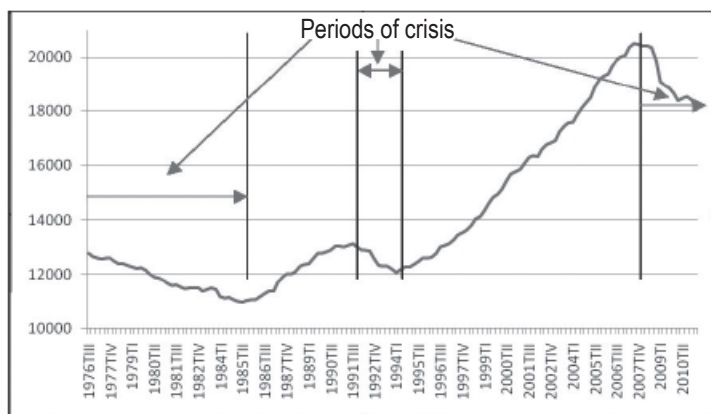
Perhaps a preliminary approximation to a descriptive analysis of the expansion of this crisis and the different and varied impacts on the labour market, as regards the EU member states, may shed some light. We can try to interpret the different factors that help explain why some countries have faced the damaging effects of this crisis more successfully, those factors whose absence or lack of operating capacity, *a sensu contrario*, explain the most negative macroeconomic behaviour or labour market effects. Similarly, we may also learn from past crisis periods in our own habitat. Excluding the differences between one "shock" and the other, we may extract from them the differences in behaviour of the economic and social partners and the differences in results. We shall try to analyse these differences first of all.

As regards the labour market, the first issue to take into account is how the "shock on demand" has affected our country more or less relative to our surroundings. To this regard, two macroeconomic variables must be interpreted. First, the differential characteristics of our productive system, which will explain why a certain fall in aggregate demand transforms into a greater or lesser impact in terms of employment dynamics and its differential transfer to employment supply. In short, the productive structure, in a sectoral and occupational sense, determines the elasticity of the labour factor

with regard to the product and it contributes to explain oscillations in the volume of employment throughout the economic cycle. In the Spanish context, we must explain the large difference between the Spanish economy and the EU average as regards employment volatility. The explanation is simple in descriptive and macroeconomic terms and coincides with the explanation provided for other European countries with similar characteristics. The abundance of a productive fabric with a low capacity for innovation of any kind and a high demand of low-skill labour results in relatively high figures of sectors such as housing construction, hotel and restaurant trade or other services. This means that during the upward stages of the cycle, employment increases above the product growth rate and the opposite occurs in the downward stages of the economic cycle. This occurred in the depression in the nineties and the subsequent recovery, and that is what is happening to us now. The main difference is that the recovery cycle at the time was based on labour-intensive sectors and demand in these sectors was never saturated. In the current cycle, the difference lies in the fact that the bursting of the property bubble has made it impossible to tackle economic recovery –and employment more specifically- by turning to a boost of productive activity in the sector: demand in this sector is simply stagnant and will be so in coming years. Hence, there is no place to generate expectations of improvement like those which fed that bubble in the second half of the nineties and the first half of this decade. All of this with greater impact as regards job destruction.

Between the third quarter of 2007, the high point as regards employment, and the first quarter of 2011, the last Active Population Survey (EPA) available, the employment volume has decreased in 2,350,000 people employed; that is, more than 10 per cent of the figure considered in 2007, decreasing at a quarterly rate of 169,000 persons. Between the third quarter of 1991 and the first quarter of 1995, the high and low points as regards employment in the previous cycle, employment decreased by 1,037,000 people, 7.9 per cent, a decrease in employment of 103,000 persons per quarter.

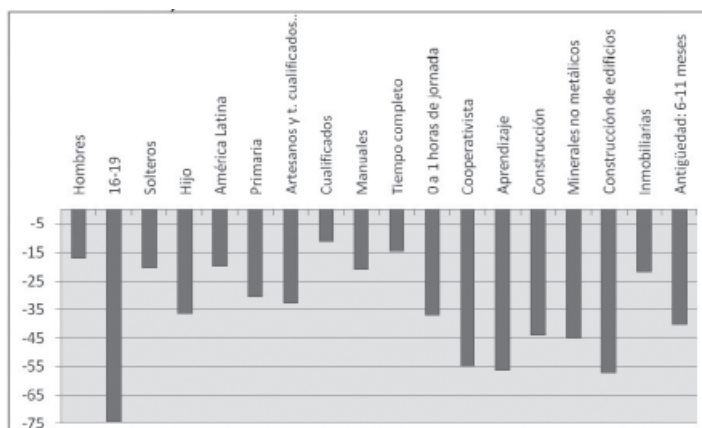
Figure 1. Evolution of active population in Spain (in thousands, 1976-2011)



Source: Author using EPA figures

Continuing with this double differential type of analysis, it is interesting to understand the distribution of the shock on demand between the different supply categories or segments that can be identified in order to have a broader perspective of the impact of the crisis on the labour market. To this regard, the chart below summarises which collectives supplying employment have absorbed the decrease in employment to a greater extent.

Figure 2. Job destruction in the cycle, per collectives (2nd Quarter 2007 – 4th Quarter 2010)



Source: Author based on EPA figures

To a certain extent, this is in contrast with the average standards recorded in the European Union, and more so with some countries in particular.

Similarly, differences are observed with regard to the labour market's reaction to the shock of demand during the depression stage of the previous economic cycle.

3. Response to the employment shock

However, going back to the conventional theoretical reference, we should consider that the behaviour of the labour market, related to the nature of the different systems of industrial relations, mustn't be neutral as regards the amount of employment derived from a certain shock on demand and for a certain productive system. That is, different labour market regulation models offer different responses to the dynamics of the economic cycle.

Several responses are possible from an analytical point of view, depending on the flexibility/rigidity we wish to ascribe to each specific system of industrial relations. Summarily, the most conventional theoretical literature considers that the greater the flexibility the lesser the impact on employment benchmarks; that is, the greater the flexibility the greater the possibility of absorbing, at least partly, the impact of job destruction, the larger the number of people employed and the lower the number of unemployed than in the absence of said condition.

However, there are different forms of flexibility in configuring the labour markets. Some of the most original proposals to this regard point out that the effects of the crisis on employment aren't conditioned by a greater or lesser degree of overall flexibility of the labour market but by a certain combination of flexibility in employment and in wages, hence stating that the final outcome isn't the result of the level of flexibility but of a suitable combination of both types of flexibility.

In any case, any approximation to the ability of the European labour markets to adjust would entail breaking down the results per components.

It is therefore interesting to analyse how the total effect of the shock on demand is distributed, measured in terms of the variation in the volume of working hours in each market, between the volume of employment (occupation) and working day. Undoubtedly, the choice between one adjustment or the other is related to certain features of the labour market, as well as the arbitrary intervention of labour and/or economic authorities through the different incentive mechanisms in one direction or the other. With regard to flexibility in employment, the greater or lesser efficiency with which mediation mechanisms work in the labour market can

also be considered.

In general, we can observe how in the Spanish case, with a more intense impact on the demand for labour, the adjustment preferred is with regard to the volume of employment. However, in other European countries, and in the EU as a whole on average, the weight of shortening working hours is greater than the general adjustment of employment. This doesn't mean that shortening working hours isn't taking place in our labour market (which in absolute terms continues to be higher than the EU average) but that the relative impact in the overall adjustment is smaller. There is a significant relative increase in part-time employment, displacing or substituting full-time contracts.

Both external (hire & fire) and internal (working day, mobility, etc.) forms of flexibility have an impact in this case. A combination of financial facilities on contract termination or low entry costs (associated to low-skill jobs) with internal or wage rigidity, for instance, may make it easier to choose an employment volume reduction as the way to adjust to the shock on demand. Contrary to this, greater termination costs or high entry costs combined with internal and wage flexibility may facilitate adjustment that doesn't affect the volume of employment (low unemployment rates).

The second scenario to be considered is with regard to wages, considering the impact of the shock on wage dynamics. Analysing the behaviour of the wage variable in times of crisis may be interesting, comparing its evolution with other European markets and also, domestically, in relation to productivity dynamics.

Lastly, choosing different adjustment formulae and a varied combination thereof is related to the contents and characteristics of labour regulation and the options devised by economic and labour policymakers.

In any case, it should be pointed out that the reaction of the labour market is a form of adjustment to an external shock, and so it only determines the capacity to absorb part of the effect of the crisis of the demand for labour; understanding labour market behaviour in this way, only a small part of the imbalance it suffers can be attributed to it, not the thick of the destruction/generation (at the time) dynamics of demand for labour.

And when recovery returns: do we increase occupation

or increase working hours? Perhaps the incentives have to be redefined in order to alter the parameters in the adjustment to the expansion stage.

As a result of the above, it could be concluded that the labour market isn't the root of the employment problems we're suffering, but quite the contrary. It could be stated that labour market deterioration is the effect of what takes place in the economic system. Hence, "it can be said that the deterioration in employment that is taking place is the most direct effect and, therefore, the most immediate consequence of the change in economic cycle. In other countries close to ours, the results are more noticeable in other areas, clearly resisting job destruction, whilst this unfortunately isn't the case in our system. It is the combination of credit difficulties in undertakings, the difficulties to improve our trade balance, the downfall in property activity, the excessive indebtedness of families and the resulting decrease in private consumption, as well as the intense bias of our employment structure towards low-skill activities which is strongly determining a significant job destruction process, significantly more intense than other European economies" (Fundación Ideas, 2010).

And, therefore, "*a sensu contrario*, the problems are not immediately located in our labour market. Hence, it can't be said that the cause or responsibility of difficulties in employment correspond to the labour market. In other words, we are essentially facing significant challenges derived from an important reduction caused by problems in the supply of labour, not in the demand of the labour market.

More precisely, it would be unfounded to consider the current regulation framework regarding labour contracts in Spain as the cause for the resulting deterioration in employment.

Neither can it be said that our labour legislation, in view of a change in economic cycle rooted in external factors, has contributed to worsen job destruction. A topic of discussion could be the extent to which our labour model has influenced, as one of several factors that influence this sphere, a scarcely efficient labour market given the low skill required by the jobs created²

² This reflection is important in order to value the Spanish economy's capacity for growth after the crisis, which is ultimately the basic determining factor of the growth in demand for labour. To this regard, let's remember that "the lesson learnt from the post-war experience (WW II) as regards the growth champions, is as follows: countries

in the last period of economic growth, even when there are not enough contrasted figures to make a statement to this regard. However, in any case, beyond this structural element, current labour legislation in our model cannot be blamed for intensifying the current process of job destruction.

As a result, it wouldn't be reasonable to think that the adjustment in employment would have been less intense with another regulation in which the cost of termination is the same for all workers. Perhaps it would have entailed a greater redistribution of income in favour of temporary workers and less in favour of permanent workers; however, the reason for this adjustment precedes the regulation of termination. That is, it would have taken place regardless of the regulation enforced" (Fundación Ideas, 2010).

From this point of view, looking at the factors that decide the generation of jobs, and their quality, it would be necessary to transform the current economic growth model, based on the intensive use of precarious, low-wage, low-skill employment, into another based on innovation that allows an increase in the quality and productivity of labour. Thus, the relevance of industrial, energy, environmental and education policy to unblock the main bottlenecks which hinder this transformation in Spain.

with high growth levels are those who are capable of understanding quick structural change from low productivity activities (traditional) to high productivity ones (modern). Modern activities mainly produce marketable goods, and are mainly of an industrial nature (although marketable services are clearly important also). In other words, poor countries become rich countries by producing what rich countries produce" (Rodrik, 2009:5, own translation).

4. Active Labour Market Policies

All of the above comes together in the belief, held by a significant proportion of economic literature, regarding the limited role of actions performed on the labour market with the aim to overcome the “shock” in employment that Western economies are currently suffering. To this regard, it has been pointed out that “the ability of labour policy in general and labour legislation specifically to influence change in the evolution of our industrial relations is quite limited within an economy based on market rules, especially one which is increasingly globalised and presided by strict competitiveness criteria” (Ibidem). Or, more explicitly, “the labour market neither creates nor destroys jobs; what it does is transmit the evolution of the products market to employment. This transfer mechanism may function better or worse, but looking at the employment and unemployment figures isn’t enough to know this; it requires looking at where the disruptions suffered by the economy come from and how the labour market transmits these disruptions. Factors from the side of the demand for labour are essential to understand the decline in employment” (Toharia and Malo, 2009).

In this line and in general, not only from the point of view of actions to tackle the current crisis, the limited efficiency of Active Labour Market Policies³ to encourage a greater vitality and integration capacity of the labour markets has been stated for some time. To this regard, it has been pointed out that “active policies can be found in practically every country, only differing in scope, design and implementation. Their effectiveness to integrate the population in the labour market varies considerably between countries, regions and types of measure. Whilst the assessment studies show that certain measures may indeed improve the opportunities for integration in the labour market, those making the assessments often

³ A classic definition of this economic policy instrument was offered by Gösta Rehn more than two decades ago, pointing out: “We understand active labour market policy as the set of programs that promote or create jobs where the demand for labour is insufficient for full employment (programs aimed at demand), or the readjustment of labour to intersectoral or interregional differences and the variations of structure to demand (programs aimed at supply). Efforts carried out to achieve the simultaneous adjustment of supply and demand by means of better information and efficient employment offices also belong to this type of policy” (Rehn, 1989).

find that active programs don’t adapt to the population they intend to serve, they suffer of deadweight substitution effects and often only have a marginal net positive effect” (Auer, Enfendioglu and Leschke, 2005:V⁴)

Nevertheless, we could speak of a certain “capacity of labour policies as a whole to accompany and encourage, in particular with the aim to balance out the interests at play, especially in order to avoid undesirable labour market dualisation or segmentation effects, correcting certain distortions in the reasonable distribution of rigidity and flexibility elements. However, as regards the measures required to react to the current economic crisis, the response can hardly come from an action on labour policies” (Ibidem).

Focusing on discretionary actions with an impact on the budget (economic policy), the first thing to consider when assessing these policies is to specify the objectives they seek, in order to consider them as benchmark parameters in any possible assessment to be made. To this regard, labour policies overall are considered to try to encourage desirable behaviours and curb undesirable behaviours amongst the social partners taking part in the labour market. With this as basis, they are differentiated between active policies, aimed at encouraging employment, and passive policies, aimed at maintaining income for the unemployed.

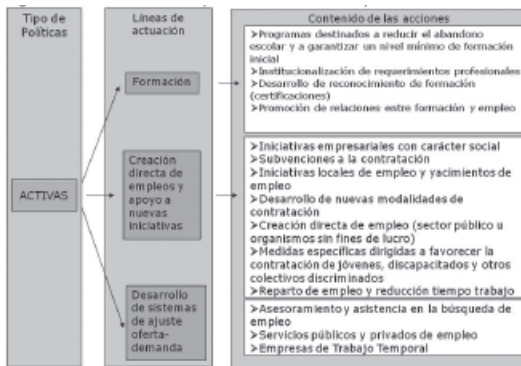
Specialised literature usually concurs that the explicit objectives of the ALMP can be specified as the following:

- Increase market transparency
- Deal with disadvantaged groups, improving their capacity to be inserted into the labour market
- Develop employment stability
- Foster employment creation and its distribution
- Optimise human resources

And in pursuit of these objectives, the orientation of the actions that are usually carried out under ALMP is summarised in Figure 3.

⁴ Own translation.

Figure 3. Orientation of the active policies of employment

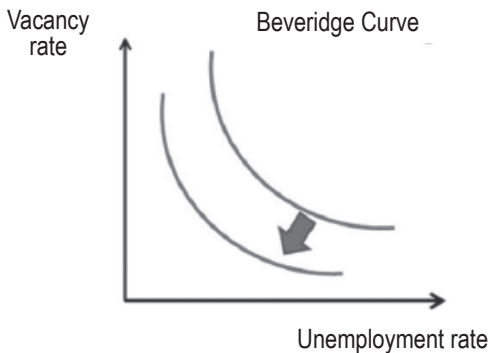


Source: Ruesga (dir.) et alter (2002).

The question is, what can be expected from these types of actions oriented at modifying the behaviour guidelines of socio-labour agents?

We are going to contrast it from the point of view of theoretical analysis, considering the impact different measures developed within the scope of these policies can potentially have on the relation between vacancies and unemployment (Beveridge Curve).

Figure 4.- Displacement of the Beveridge Curve

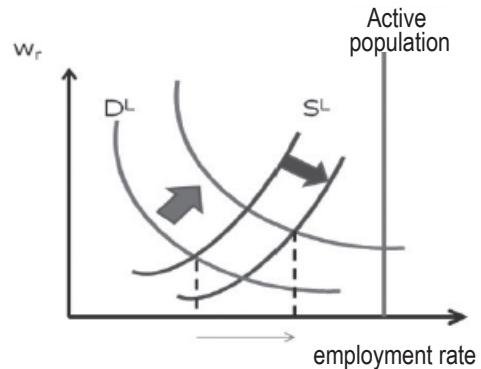


Source: Ruesga, S. M.; Pérez Ortiz, L. and Da Silva Bichara, J. (2003).

Firstly, it should be expected that these types of measures can reduce the number of vacant jobs in the labour market for each level of (un)employment.

In short, this would lead to a decrease in the salary pressure in the entire labour market, displacing the salary fixation curve (work offer, S^L) to the right (Figure 5).

Figure 5.- Effects of ALMP on employment (1)



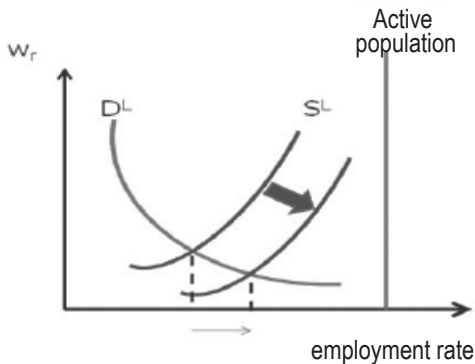
Source: Ruesga, S. M.; Pérez Ortiz, L. and Da Silva Bichara, J. (2003).

Given that the existence of vacancies involve a cost for employers, the total cost of employing an active population is reduced, thereby displacing the work demand curve (D^L) outward (the demand increases for a given salary level).

Secondly, if the active policies increase the **productivity** of work (of the active population that participates directly in training programs and employment creation), positive externalities could be generated in the labour market that contribute to increasing the general productivity. This would mean an outward displacement of the work demand curve (D^L), thereby causing an increasing in the employment rate after applying these measures.

Thirdly, all the active policy measures help to maintain the effective employment offer as there is a decreasing risk that the long-term unemployed and other labour market *outsiders* "leave" the active population.

Figure 6.- Effects of ALMP on employment (2)



Source: Ruesga, S. M.; Pérez Ortiz, L. and Da Silva Bichara, J. (2003).

This means that there will be more competition for the jobs available, which decreases the salary pressure, i.e. it displaces the salary fixation curve downward

Lastly, an efficiency increase can be expected that would displace the Beveridge curve inward (Figure 4), when action is taken on employment orientation and administration services and ongoing training for employment (in the lines indicated in Figure 1), due to the fact that:

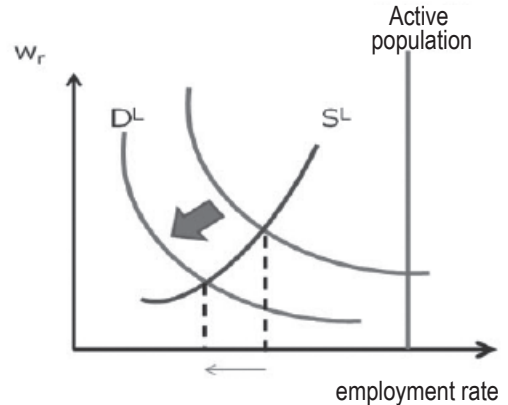
- The adjustment process between job offer and demand is shortened if the **qualifications** of the unemployed and those required by the demand structure are gained through training.
- The job search for the unemployed can be more effective if they are **active** in several ways (they participate in programs),
- The employer's **uncertainty** regarding the employability of potential employees is reduced if they participate in active labour policy measures that contribute to increase their qualifications.

Nevertheless, together with these positive effects on the employment level of a labour market where active policies are applied, the theoretical reflection also indicates uncertainties:

- In the case of subsidies for creating employment and subsidies for specific groups, such as the youth

and the disabled, a **substitution effect** can be observed regarding non-subsidised employment, as it is more profitable for the employer to replace one employee category with another.

Figure 7. Substitution effect of the ALMP

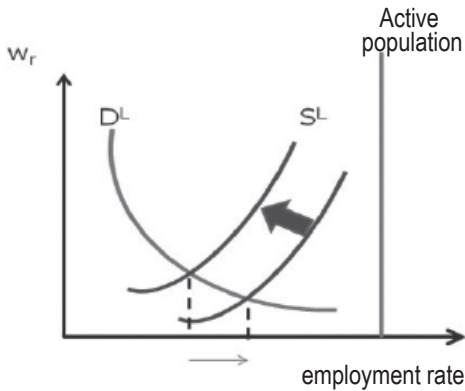


Source: Ruesga, S. M.; Pérez Ortiz, L. and Da Silva Bichara, J. (2003).

If this occurs, the job demand is displaced to the left, which can offset the direct job creation resulting from the subsidies. In other words, substitution cancels the possible net job creation effect previously indicated.

Additionally, active policies may reduce the rent losses (wellbeing) associated with the unemployment situation (and long-term unemployment risks) and if this is the case, incentives to moderate salary are reduced and the employer has to pay more for labour, which would redound on the displacement of the salary curve, S^L , toward the y-axis. The result is a **crowding-out** effect which also reduces the net effect on the level of employment.

Figure 8. Displacement effect of the ALMP



Source: Ruesga, S. M.; Pérez Ortiz, L. and Da Silva Bichara, J. (2003).

The “**dead-weight**” effect has to be added to all these effects: the results of an active policy measure may not be differentiated from the situation that would have occurred in the absence of this measure. For example, it is possible that people hired with a paid subsidy would have been hired anyway: therefore, the money paid for them is an irrecoverable loss of effectiveness and is of no use whatsoever⁵.

This type of conclusion can be synthesised with the results obtained in a study carried out by the German Institute for the Study of Labour (IZA). The conclusions obtained from a wide selection of literature that carries out microeconomic evaluations of nearly two hundred Active Labour Market Policy programs were synthesised and the following conclusion was reached (Card, Kluve and Weber, 2009):

1. The long-term evaluations carried out tend to indicate more favourable results (with different result representations) than the short-term evaluations, considering short-term results to be a period of up to one year and long term to be a time lapse of more than two or three years, according to the analysis. “Without a doubt, we can find a lot of programs that show insignificant or even negative impacts after just one year, which become significant or positive when calculations are made two or three years after the programs have ended. Academic and training programs in the workplace may produce more favourable results in medium-term calculations than in short-term calculations” (Ibidem: 25-26).

2. Another interesting point that is deduced from this type of evaluation is that the variable that we use to measure the results of the programs is particularly relevant. It is not indifferent for calculating impacts. The evaluations that consider the duration of registered unemployment as a result seem to show a more positive significance in the short-term calculations which consider the level of employment and salary earnings as an independent variable. In this regard, the methodology to be used to evaluate the different ALMP programs is not indifferent for the results obtained from this. Different methodologies gives different results regarding the relation between instruments applied and changes (and the direction of the same) in the behaviour of the labour markets due to their application (Kluve, 2007).

3. The third conclusion of interest is that the programs that focus on subsidising employment in the public sector and the programs aimed at the youth are generally less successful than other types of Active Labour Market Policies, a conclusion that is proven by many studies carried out on literature specialised in that area.

An additional issue that arises from the compilation of these evaluations is that differential effects are not observed between men and women after the application of these policies⁶.

⁵ For the Spanish case, this is the most notable effect of applying active policies during the years according to the evaluation study directed by Professor Luis Toharia for the Ministry of Labour and Immigration (Toharia, dir., 2008).

⁶ From a methodological point of view, these types of studies reach the conclusion that the same results are obtained in relation to the significance of the impact of the programs whether experimental or non-experimental models are used.

Under these considerations, it can be expected that the sign of the effects obtained from the application of the different labour policy actions, grouped into four basic lines, describes a picture like the one shown in Figure 9. Therefore, in accordance with the concrete quantifiable objective desired, represented in the Figure by a different ratio or indicator (unemployment/employment rate, etc.) the effect expected will go in the direction indicated by the sign reflected in each case. For example, it is expected that the reform of public employment services in certain directions will contribute to reduce the unemployment rate, to increase the relative employment volume, or also increase e.g. the employment rate of active senior individuals, without significantly affecting the temporary employment rate, among other effects. The determination of these objectives with certain precision will allow for the subsequent evaluation of the results obtained, through analyses that calculate (through different methodologies) the differences in the behaviour of the labour market in the subject in question with or without any impact on the employment programs in question. These evaluations allow the level of effectiveness and efficiency of the application of different employment programs to be calculated and to compare them in relation to their different characteristics and their effect on different geographical and/or institutional spaces.

Figure 9. Expected influence of the active policies on the behaviour of the work markets

Source: Ruesga, S. M.; Pérez Ortiz, L. and da Silva Bichara, J.(2004)

Objective variable (work market result)	Administration and employment public services	Training	Measures aimed at the youth	Employment subsidies
Unemployment rate	-	-	-	-
Youth unemployment rate	-	-	-	-
Long-term unemployment rate	-	-	-	-
Employment rate	+	+	+	+
Female employment rate	+	+	+	+
Senior person employment rate (between 55 and 64 years)	+	+	=	+
Temporary employment rate	=	-	?	?

5. ALMPs from a European perspective and its reform process

The development of ALMPs in Spain has been closely related to the successive advances that have been occurring in this matter at EU level. However, this is not the place to look at the sequence of ALMPs in an EU context as it would probably repeat the subject matter of other studies in this Forum.

Nevertheless, please allow me to offer a few brief descriptions to outline the reform process that is being developed at the Spanish State level, in order to outline the same.

The ALMPs of the EU countries are based on three regulatory pillars with their particular idiosyncrasies and at the same time, they use three different sources of resources very unevenly distributed depending on each national entity.

In a regulatory sense, the community institutions develop a coordination and orientation role of the ALMP in the Member States through the European Employment Strategy, which synthesises the directives in this matter for a specific period of time, sets an objective and regularly reviews its performance level. There will be a debate on the EES in the Forum so we are not going to go into any more detail here.

Figure 10. The active policies from the perspective of the European Employment Policies. Instruments for the ALMP

Regulations: Common strategies and Community Directives (regulatory harmonisation)	Financial:
National legislation (labour reforms)	Social European Fund
Regional/local legislation	National budgets
	Regional/local budgets

Source: Author's own compilation.

In addition, certain directives that regulate or coordinate actions at community level, certain social matters or even strictly labour matters could be considered to be part of the design of the ALMPs.

However, the majority of ALMP regulation is at national and/or regional-local level, in accordance with countries and respective political and territorial structures. This is the case with Spain where the basic regulations governing these policies are the responsibility of the Central Administration and the development and execution of many of them are in the hands of regional (autonomous) administrations and, to a lesser extent, local administrations.

It is a similar situation with the financial resources destined to cover ALMP requirements. The community contribution is fundamentally channelled through the Social European Fund which develops its own programs, in accordance with the current EES, and it executes them in collaboration with the national and territorial authorities of the Member States. The majority of resources destined to these policies are of national origin and they are distributed among the various administrations according to the institutional idiosyncrasy of each one.

A second issue that needs to be pointed out in relation to the community outlook of the ALMP is the uneven geographical and temporal distribution of the resources destined to the same.

Figure 11. Resources destined to labour policies for each point of unemployment, 2008

	Gasto (%PIB) en políticas ACTIVAS / tasa paro	Gasto (%PIB) en políticas PASIVAS / tasa paro	(% PIB)	Gasto Público en políticas PASIVAS
UE-15	0,09	0,14	1,3	
Bélgica	0,18	0,29	1,3	1,5
Dinamarca	0,37	0,37	1,1	
Alemania	0,11	0,15	1,1	0,7
Irlanda	0,12	0,21	0,9	
España	0,06	0,17	0,9	1,2
Francia	0,10	0,15	0,8	
Italia	0,06	0,12	0,8	1,4
Luxemburgo	0,08	0,11	0,7	
Países Bajos	0,37	0,45	0,6	0,4
Austria	0,18	0,31	0,6	
Portugal	0,07	0,13	0,5	1,1
Finlandia	0,12	0,21	0,5	
Suecia	0,15	0,07	0,5	0,5
Reino Unido	0,06	0,04	0,5	

Source: Author's own compilation based on EUROSTAT data.

As the data in Figure 11 shows, the investment efforts of EU countries in ALMP varies notably from the highest levels recorded in some of the Nordic countries (Belgium, Denmark and Germany) to the lowest in the United Kingdom, Finland and Sweden. It is also significant that in 2008, Sweden was one of the countries that dedicated least resources to financing the ALMPs, having been the leader in developing these adjustment instruments in the labour market. It seems as if the not-so-optimistic evaluations on the results of the application of these policies had led those managing them to stabilise the expenditure dedicated when not reducing it⁷.

Secondly, it is also of interest to point out that in the years prior to the recession, some of the countries more involved in these types of policies (highly linked to managing passive policies, basically unemployment subsidies) tend to halt, when not reducing, their financial efforts in these programs (Jaspersen, Munch, and Skipper, 2008). We do not have any homogenous data available to observe how this differential effort has evolved in more recent years, with the full impact of the recession, but at least in the period beforehand it seems as if the perception of the effectiveness of such measures were questioning their own validity or, at least, the continuity of their own expansion, in aggregate terms.

Lastly, in relation to the design and management of ALMP at EU level, the reform process of its characteristics and content which has been experienced in more recent years, probably due to questioning regarding its effectiveness which we have mentioned, should be pointed out. As a synthetic sample, in Figure 12 we have a certain widening

7 See the conclusions reached in this regard in studies such as by Forslund and Krueger (2008) or by Sianesi (2004). In any case, the relative efforts in ALMP (measured as a percentage of the GDP expenditure per point of unemployment rate) is still above the community average.

of ALMP scopes and content, under which framework more importance is given to objectives that go beyond the adjustment in the labour market, searching for more qualitative elements of its components (gender equality, human capital qualifications, etc.)

Figure 12. Transformation of the ALMPs. Scopes and content

professional orientation	training and requalification	job opportunities and promoting hiring	training and job opportunities
equal employment opportunities	opportunities for groups with special difficulties	self-employment and creating companies	promoting development and territorial economic activity
	promoting mobility	integrated projects	

Source: Author's own compilation based on the "Report on the Socio-Economic and Labour Situation in Spain, 2010", Economic and Social Committee (2011).

In the case of Spain too, "there appears to be a wide consensus on the need to substantially modify the content and instruments of the Active Labour Market Policies. The experience of the practice of these policies during nearly three decades now points to new models oriented more at the search for more efficient adjustment mechanisms between offer and demand, rather than the current habitual practices of public financing for creating employment, which are full of dead-weight or substitution contrasts, as indicated above. "The priorities in this area will be marked by the reform of mediation mechanisms, particularly by the Public Employment Offices – separating in the first instances the unemployment benefit administration functions from mediation functions – and the intensification and improvement in the effectiveness of training actions, concentrating on achieving high "employability" levels and job satisfaction for salaried, active and unemployed individuals, in accordance with the basic objectives of the Lisbon Strategy" (Ruesga, 2010:135).

Under these premises, gradual reforms are being introduced into the design of the ALMP in Spain, whose main axes are synthesised in Figures 13 and 14 and which we are not going to go into detail here.

Figure 13. Reform of the active employment policies (I) (RD-Law 3/2011, of 18 February, on urgent measures to improve the employability and the reform of active employment policies)

General aspects	General regulations of employment policy	New instruments to coordinate NES 1. Spanish Employment Strategy , multi-year, with orientations, actions and objectives 2. Annual Employment Plan , with specific objectives for State and Autonomous Communities
		Fostering entrepreneurial culture and business spirit Local dimension strengthening of the AEP
	Strengthening PES in NES	Territorial coordination institution consolidation and institutional participation
		Improvement of planning, management and evaluation of the ALMPs from PES

Source: Author's own compilation based on the "Report on the Socio-Economic and Labour Situation in Spain, 2010", Economic and Social Committee (2011).

However, it should be made clear that the evaluations on the effectiveness of some of the programs carried out in recent years in Spanish territory have not been very promising in relation to the results reached in the quantitative area (Toharía, dir. et alter, 2008). Due to some of these empirical studies on the effectiveness of employment programs, the idea established is that one of the actions with the highest level of effectiveness is an additional investment in the improvement of the public employment services⁸.

Figure 14. Reform of the active employment policies (II)

Innovations	1. Services catalogue for citizens for all PES
	2. Customised attention model for the unemployed
	3. Employment policy fund
Transformation of the AEPs	
Concept	General principles
- Programs and measures change to services for citizens	<ul style="list-style-type: none"> - Individualised treatment - Fostering self-employment - Equal opportunities - Adapted to territory

Source: Author's own compilation based on the "Report on the Socio-Economic and Labour Situation in Spain, 2010", Economic and Social Committee (2011).

The trend of these new actions insists, for example, on the need to individualise the treatment given to unemployed individuals for better reinsertion into the labour market, which means prioritising resources destined for the ALMP to investment in the public employment services, a matter which has marked differences at European level –with Spain being frankly behind in this matter- (Ruesga, dir., 2011).

⁸ A macro evaluation that reaches this conclusion can be consulted in Ruesga, Pérez Ortiz y Da Silva Bichara, 2003.

6. Some conclusions on the experiences of application of the active labour market policies and their extension at local levels.

As a synthesis and conclusion of all the points above and considering the function of the managers of labour policies *at local level*, the following considerations can be made:

1. When defining labour action programs at local level, it is essential to establish the objectives to be reached as clearly as possible, and they should be measurable with the statistical instruments for use so that the relation between the achievements reached and their direction can be measured afterwards with sufficient precision as a result of the application of the measures developed and the objectives required. This would allow us to give calculations of the significance of this relation between the result of the application of measures and objectives, which is of singular importance to correct the orientation of the labour policies in successive waves of application of the same.
2. A second issue, also essential, is to consider in detail the institutional economic environment in which the different programs to be implemented have had to be developed, as well as the characteristics of the same. With regard to the first, particularly when we design at local level, we should consider the existence of higher level administrations that develop actions in this area at the same time. This obviously involves avoiding duplicity, but also considers the possible effect of the combination of two or three types of measures that act simultaneously on the same space, not only to avoid the accumulation of their respective subsidies in the same subject or object, but also to assess the possible complementarity or incompatibility or dysfunctionality that may arise from the simultaneous application of sponsored measures from different administration levels. For the latter, it is necessary to consider in detail the characteristics of the programs that operate on the same territory from the various administrations.

Other elements or characters of detailed knowledge of the institutional framework are also of singular interest for considering a priori the possible impact of the measures to be applied and therefore to deal with increasing the effectiveness levels of the measures to be applied.

Unfortunately, it is often very frequent that in a specific territorial space, there are different types of labour policy measures combined, designed and implemented from different levels that do not necessarily look for the same specific effects and may result in incompatibilities occurring between them, or at least this combination in the space may reduce the global effectiveness of the same. Sometimes, the resources that are placed in these types of measures are excessive for the results expected, simply because resources from different administrations accumulate in pursuit of a concrete objective.

3. It is a good idea to consider what specialised literature warns us about undesired effects of these types of measures, from the so-called substitution effects or the so-called dead-weight displacement. The quantitative evaluation of previous programs may offer conclusive results for this purpose. Sometimes, the results are not as conclusive as required (for many reasons that have already been referred to such as lack of information or methodological difficulties for evaluation programs) or we are going to going to implement a type of program for the first time if we do not consider previous experiences that allow us to avail of those who design, quantitative evaluations or detailed information on the results achieved in previous applications.

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4. Finally, it is also of interest to contemplate one of the main conclusions obtained from the evaluation studies of the same when planning a set of labour policy measures to be applied in a determined territory, i.e. that the results reached are usually more intense and in the correct direction, in the long term and not in the short term. This is of singular interest, for example, when these types of measures are used, as is happening in the current recession period, as a shock treatment to the serious problems of job destruction. Even though a positive quantitative effect is expected on the job volume due to the application of some of these labour policy measures, it is obvious that the results will probably not be identifiable for a similar length of time. This has to be taken into consideration by the person planning and when establishing objectives, periods concurrent with what we have seen from the experience of evaluations to what is referred are established.

Therefore, there is a great number of analytical and planning elements to be taken into consideration in the design and implementation of ALMP at local level.

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