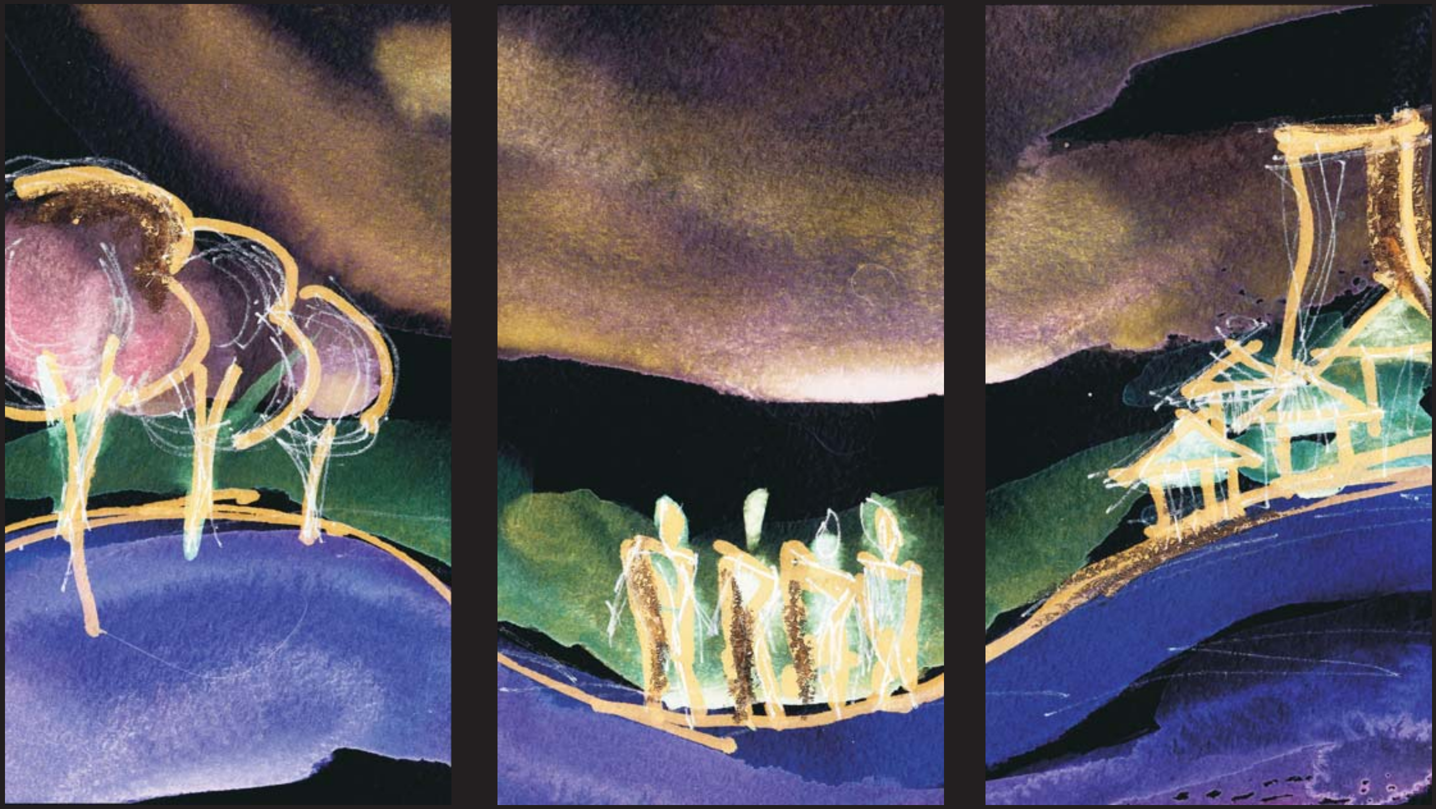
WHAT IS LOCAL ECONOMIC DEVELOPMENT ?



In the same series:

What is Conflict?
What is Interpersonal Communication?
What is Negotiation?
What is Facilitation?
What is Ethnic Conflict?
What is Mediation?
What is Decision-Making?
What is Participatory Planning?

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WHAT IS LOCAL ECONOMIC DEVELOPMENT?

DEFINING THE CONCEPTS

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To Sustain

Sustainable Development

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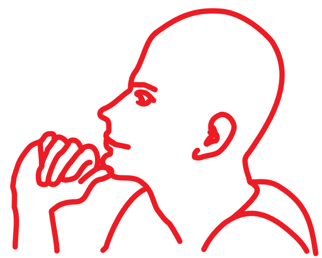
DEFINING THE CONCEPTS

We will start by defining the main concepts and by emphasizing that **Local Economic Development** is part of the larger concept of **Local Development**.



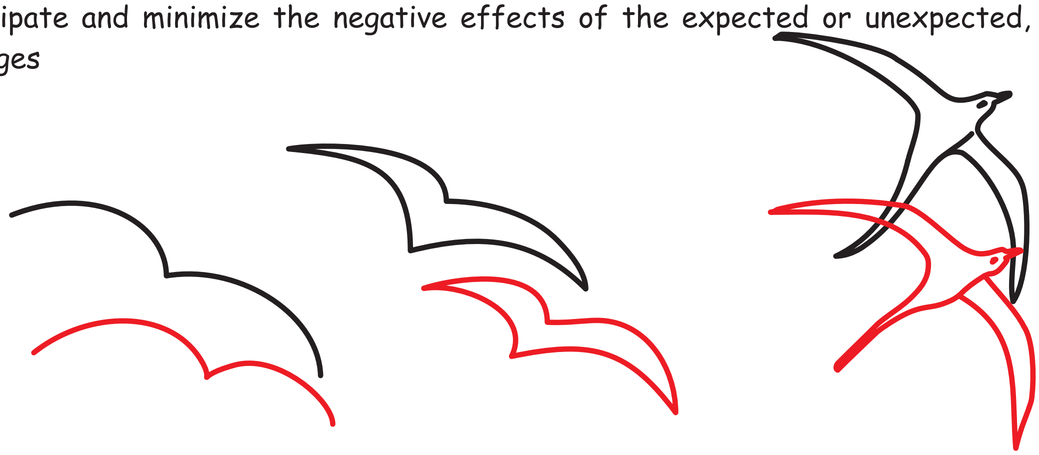
Development

Development is a Process **that makes something better than it was**. But not always development takes place through growth. We all grow as children, but after reaching a certain age we stop growing. However we don't stop developing just because we have stopped growing. We continue to develop by changing and improving.

The change process happens even if we want it or not. And changes can occur also unexpectedly, can be unplanned, unintended and in less fortunate situations, unmanageable. Changes can have negative effects.

The key issue in Development is that we should stay in control of the change process so that we are able to:

- plan and implement positive and manageable changes
- anticipate and minimize the negative effects of the expected or unexpected, unintended changes



Local

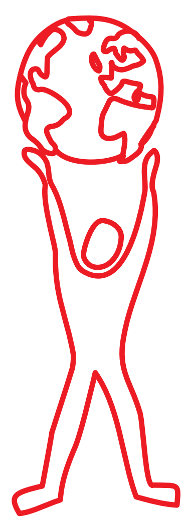
Local is defined by the Territory **where development takes place**. Territory boundaries can be determined using different criteria:

- **Administrative boundaries:** define the territory over which public authorities have jurisdiction (local governments, county councils, regions - associations of county councils or associations of local governments)
- **Economic and market boundaries:** define the territory with intensive economic exchanges and powerful links between suppliers and producers, which exceeds many times the administrative boundaries (small towns being under the economic influence of big neighboring cities or market towns having an influence over a number of smaller neighboring villages)
- **Natural boundaries:** define the territory with similar natural features and natural boarders (rivers, mountains, hills) with other neighbouring territories
- **Socio-cultural boundaries:** define the territory with similar values/believes, cultural identity and stakeholders relationship

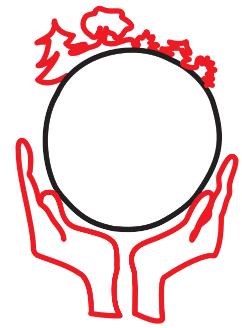
We can use more than one criterion when defining the local area, the territory, on which we will focus the Local Development efforts.

To Sustain

To Sustain means to keep in existence without diminishing, to nourish, to operate in such a way that we do not use up all our resources. It does not mean that nothing ever changes or that bad things never happen.



Sustainable Development



Sustainable Development is living and developing within the carrying capacity of our resources. It does not mean sustained growth and it is not only an "environmental" issue.

Sustainable Development is based on the idea that, as humans, we are part of the world' ecosystem, and we need to learn how to integrate our **economic** and **social** lives into the **environment** in ways that maintain and enhance the environment rather than degrade or destroy it.

The concept of Sustainable Development became widely used after the Secretary General of UN established in 1983 the World Commission on the Environment and Development, referred to as Brundtland Commission, after Gro Harlem Brundtland, the Commission's head, Norway former Prime Minister.

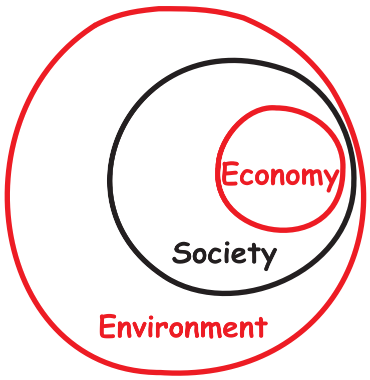
The Commission was asked to look at the world's environmental problems and propose a global agenda for addressing them. The result of the study was that there was no hard and fast division separating environmental, social and economic issues. All the problems were intertwined. There were links between environment, economy and society, problems and development in one area affecting the other areas.

Brundtland Commission defined Sustainable Development by emphasizing the importance of meeting needs, not just now but in the future as well:

"Sustainable Development is the Development that meets the needs of the present without compromising the ability of the future generations to meet their own needs"

A shorter definition is "Development that lasts" (Pearce and Barbier, 2000). Meeting human needs and increasing the quality of life may be regarded as the 'development' component and being able to maintain this into the future may be regarded as the 'sustainability' component.

This is the symbol of the 'three pillars' approach to Sustainable Development, which requires a close integration of the three sectors: economic, social and environment. As you can see, economy exists only within the human society, and society exists only within the environment. Environment is able to exist withouth the economy or society.



Recent work on Sustainable Development transformed the **'three pillars'** approach into the **'four capitals'** approach, which emphasizes the links and the balance to be achieved between four types of capitals (resources) that sustain

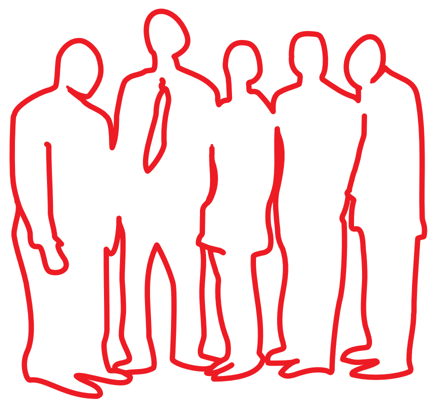
- Manufactured (or man-made) capital, representing the economic infrastructure
- Human capital, representing the human beings capacity and productivity, their talents and skills, health and motivation
- Social capital, representing the social trust and cohesion, the norms, the formal and informal groups, structures and networks of people able to work together toward common goals.
- Natural (or environmental) capital representing the eco-systems and the natural resources.

This approach stresses that the individual is an important resource for development and considers development sustainable only if the stock of capital/per capita remains constant or rises over time. Any increase in one form of capital may be compensated by declines in the other forms, but without overcoming certain critical limits, in which case development is not anymore sustainable.

Local Development

Local Development is the Process **that aims to identify, mobilize and integrate Local Resources (often undervalued and underused) in order to make a positive change that is economically vibrant, socially just, environmentally sound and politically accountable.**

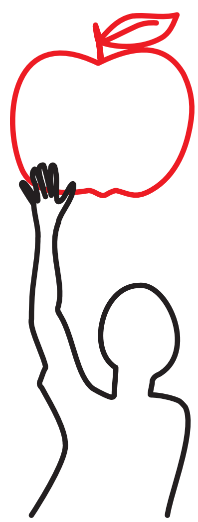
During the last decade, 'Local Development' has been increasingly the focus of public policies at different levels, European Union, national or local (regional, municipal), being seen as an alternative to the top-down approach to development.



Key for your Local Development process are:

- The focus on Local Resources (or Capitals)
- The special attention given to the Social Capital
- The Local Development Principles that you have to follow

Local Resources (Capitals)



If you qualify certain elements as Local Resources depends on how much you know about them or how do you perceive them - often you do not know enough about your own local resources, or worth, you ignore, undervalue, misuse or under use them.

Without knowing what you have, based on quantitative and qualitative data, facts and perceptions, you will not be able to understand where you are and elaborate effective solutions to arrive where you want to be in the future. Often collecting data is a difficult and time-consuming process: statistical data are available mainly for national or larger territories, local authorities having on their territories incomplete, and contradicting or old data.

We have some thoughts to share with you about this crucial step of the Local Development process, which is knowing better and discovering your own Local Resources:

- Be aware that the identification and valorisation of Local Resources is a continuous learning process for all those involved
- Involve as many institutions and persons, as possible: the wider in terms of number and deeper in terms of knowledge their involvement, the more effective and creative will be the Local Resources identification and valorisation.
- Do not collect useless data: know beforehand what data you need and why - what are the conceptual frames you will use in order to structure and analyse these data.
- Be aware that is better to have incomplete data than stop or postpone the planning process, you can always come back in a later stage.

Social Capital

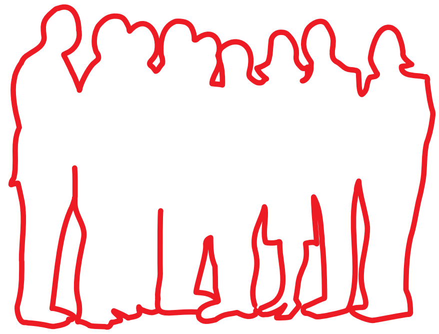
Social capital is measured by the quality and quantity of social interactions, by the levels of trust, tolerance, associativity and social cohesion of a local community.
Social capital can be defined as the glue that holds together individuals and institutions, within certain social and political structures and norms[1].
Social capital is a resource that is used and at the same time generated by the Local Development process, which is based on the principles described in detail in the next pages:

- integration
- participation and partnership
- social inclusion
- equal opportunities

Clearly an increase of the social capital means an improved capacity of a wider set of local actors to be involved in social problem-solving via public policies; and this capacity is crucial in a local development process for the identification and valorisation of Local Resources.
Increasing evidence shows that social capital is critical for development to be sustainable and for societies to prosper economically.

[1]World Bank: http://www.worldbank.org/poverty/scapital/whatsc.htm

Local Development Principles



Integration

Integration is related to both, Local Development content and process.

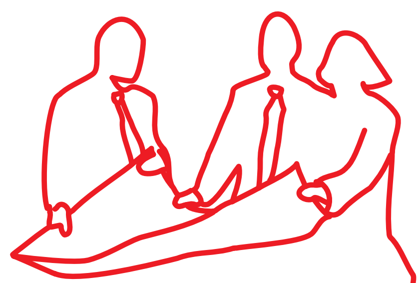
In terms of content, Integration means that Local Development has to consider the targeted territory in all its complexity, identifying the desired future of the different sectors economic, social and environment, analysing the existing local resources, obstacles and opportunities, defining a mix of strategies, policies and actions that will help achieve environmentally sound economic and social progress.

In terms of process, Integration means that all relevant actors should be involved in the Local Development process, along the two main dimensions:

- Horizontal: local actors belonging to different sectors - public, private or civil society
- Vertical: actors belonging to different levels, from local to national or international

The principle of Integration is present all along the sustainable Local Development process from the definition you give to your desired future and existing situation till the implementation of strategies, programs or actions.

Participation and Partnership



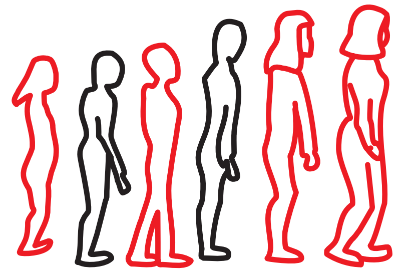
Participation means community members involvement in the Local Development process through:

- Information and consultation
- Planning exercises
- Implementation of strategies, programs or actions

More participatory the process, more able to involve local relevant stakeholders, more Social Capital is produced, which is essential for the successful planning and implementation of a Local Development process.

Partnership refers to more clearly defined, structured relations between organised structures, participating in the Local Development plan elaboration and/or implementation.

Social Inclusion



It is proved that market alone produces inequalities and exclusion, and it has become clear that it is necessary to envisage an inclusive society instead of introducing corrective measures in an effort to repair a dysfunctional system.
In recent years, economic and social cohesion have therefore become EU priority objectives and **social inclusion** a political priority at both national and local levels, to be managed through coordination of policies in the fields of employment, education, health, housing, and social services, focused on:

- Excluded or at-risk groups, such as long term unemployed, one-parent families, children living in poverty, school leavers, low wage families, people with disabilities
- Deprived urban or rural areas

Equal Opportunities

A successful Local Development process should deal also with the areas of discrimination and inequalities affecting women or men, young or elders, ethnic minorities or people with disabilities. No human being should be disadvantaged by the characteristics received through birth and over which one has no control.
EU laws and regulations assure that human beings, regardless of age, religion, gender or ethnicity have equal opportunities for personal development, for access to public services - education, health care, water or sewage, for access to jobs or housing.
Without equal opportunities Local Development could be hindered or stopped. For example, looking at the performance of some countries and regions, there is a clear and strong positive correlation between economic growth and gender equality in the labor market. The direction of causality goes both ways:

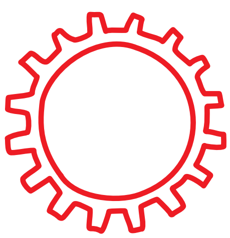
- A better economic performance is usually followed by better education, democracy and greater gender equality
- Increased female participation in the labor market helps to increase gross domestic product, as more human resources are involved in the production system, and contributes to an increase in the quality of life

Local Economic Development

Local Economic Development is a Participatory Process **in which local people from all sectors work together to stimulate local economic activities, resulting in a resilient and sustainable economy with decent jobs and improved quality of life for everyone, including the poor and marginalized.**

We hope that we have already convinced you that Local Economic Development - LED cannot take place without being integrated in the larger Sustainable Local Development process by taking into account the influence it receives from and the impact it has on society and environment.

Through the LED process underused local resources are mobilized and social capital strengthened, in order to achieve the vision, goals and objectives towards which the whole community aspires.



This may be possible only when the various stakeholders join forces and that is why we strongly promote that the Local Economic Development process:

- Involves public, private and civil society sectors representatives and encourages the establishment of partnerships, in order to identify local priorities and solutions to the economic challenges
- Builds the capacity of local actors to proactively respond to changes
- Aims at improving all inhabitants quality of life, including the poor and marginalized
- Takes into account not only the local territory strengths and weaknesses but the external opportunities and threats determined by national policies, territorial economic trends, economic inter-linkages and communications between areas, impacts of globalisation

THE FOCUS OF THIS HANDBOOK

This Handbook is focused on the **Local Economic Development- LED** topic and intends to help you, local public authorities, planning teams or practitioners, to know more about:

- **Economic Theories** you can use to better understand (a) how far is your local economic situation from what the theories describe as successful economic situations and (b) why these theories propose certain LED strategies
- **Best Practices** you can use to inspire you when elaborating LED specific programs or actions

This Handbook does not focus on other topics that could be also helpful for the design and conduct of participatory planning processes focused on Local Economic Development.

But other Handbooks of the series developed by FPDL focus on these topics, so we invite you to read:

- **What is Participatory Planning** - focusing on the participatory planning process steps and tools
- **What is Facilitation** focusing on the facilitator role and the facilitation skills required to design and conduct effective participatory planning processes
- **What is Conflict, What is Ethnic Conflict, What is Interpersonal Communication, What is Negotiation, What is Mediation** focusing on the knowledge and skills required to overcome effectively the inherent conflicts and differences embedded in the participatory planning processes

ECONOMIC THEORIES

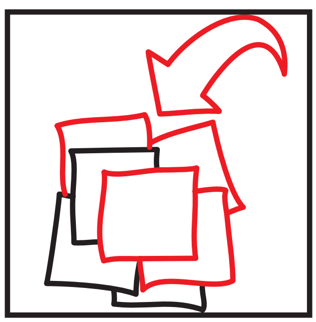
Many economic theories are elaborated through analyzing concrete successful economic situations and generalizing the lessons learned in order to be used and applied elsewhere.

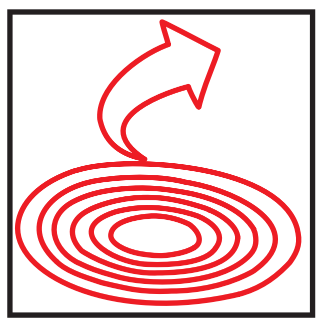
Reality is always more than one theory, but theories hael us to understand various key aspects that make reality so complex.

A social discipline such as economics deals with the behavior of people and human institutions, which are subject to continual change. That is one of the reasons why some theories, which are valid yesterday, can become invalid today.

With these reserves, we will present you the following conceptual frames of thinking that could help you identify your desired economic future and the strategies to achieve it:

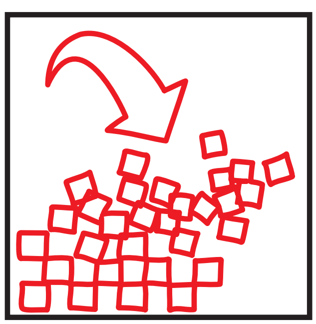
Adding Value to Local Resources

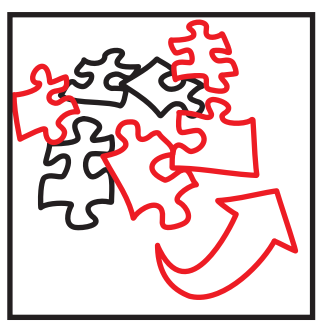




Export Base Theory

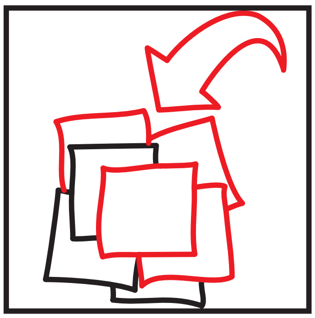
Competitive Advantage Theory





Economic Development Drivers

Adding Value to Local Resources



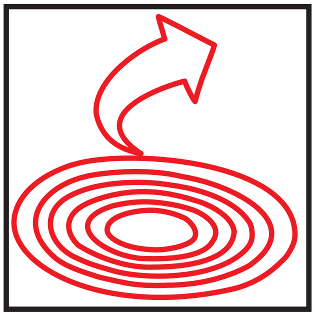
It is obvious that it is far more advantageous for a local territory is that, instead of exporting its local resources at a cheap price, as raw materials, to add value by tranforming them into local products that are sold at a higher price. Not only the influx of money is increasing, but the number of local jobs as well as the level and sophistication of necessary working skills.

When elaborating your own LED plan you may want to know that adding value to local resources involves:

- **Identifying valuable local resources** not only among the most obvious natural resources, but also among the human and social resources that determine local traditions and culture
- **Creating valuable local products** based on local resources, by observing the following four factors:
    - **Typicality**: the level of authenticity that reflects the local/regional identities, character and culture
    - **Originality**: the level of creativity used in the product design, form or function
    - **Eco-sustainability**: the level the environment sustainability is taken into account in the local product processing and distribution
    - **Quality**: the level of materials or production methods purity and integrity
- **Identifying and facilitating the access of these local products to wider markets** via collective initiatives, such as common branding, processing, marketing and/or distribution activities

Not surprisingly many local economic development initiatives have been successful by focusing on local food products: the need for food is sustainable and valuable local food products can easier find outside markets or attract outside clients into the local territory.

Export Base Theory [2]



The Export Base Theory will help you identify your local economic activities and understand in what measure they are and should:

- Bring-in money into your local area
- Re-circulate this money
- Limit the money leakages outside your local area

This teory proposes LED strategies you may use when elaborating your own LED plan.
The export base theory considers that a local economy has two types of economic activities: basic and service (non-basic), determined by the geographic definition of the "local".

Basic Economic Activities
These are the activities that produce locally and export goods and services through selling them in markets located outside the local area or through attracting outside buyers inside the local area.

The basic economic activities attract outside money into the local economy, providing jobs and income for local residents. Examples of basic economic activities are:

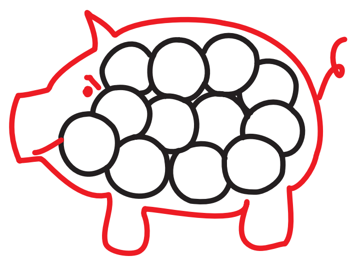
- Public services provided to a larger area than the defined local area: health, education, courts, consulting, waste management, etc.
- Local Government Agencies or citizens activities bringing money from outside sources into the local area
- Agriculture, fishery, forestry, mining, manufacturing, animal breeding businesses, selling products to outside markets
- Other businesses activities, producing locally and selling to outside buyers goods and services related to: vacation/business travels, banking and finance, real estate and consulting, health, notaries and lawyers, etc.

[2] Public Policy Education Program, Module Four: Understanding the Local Economy, by David Mulkey, University of Florida, February 2000

Service Economic Activities

Service economic activities could be any of the basic activities mentioned above, if their products and services are sold in the local market. They re-circulate the money locally, creating jobs and income, multiplying basic activities effect and preventing the money "leakages" outside the local economy. Leakages can take the form of:

- Savings in non-local institutions
- Money investments in outside ventures
- Taxes and fees paid at higher levels of government
- Businesses' profits that go to non-local shareholders
- Payments for imported goods and services from outside the local area

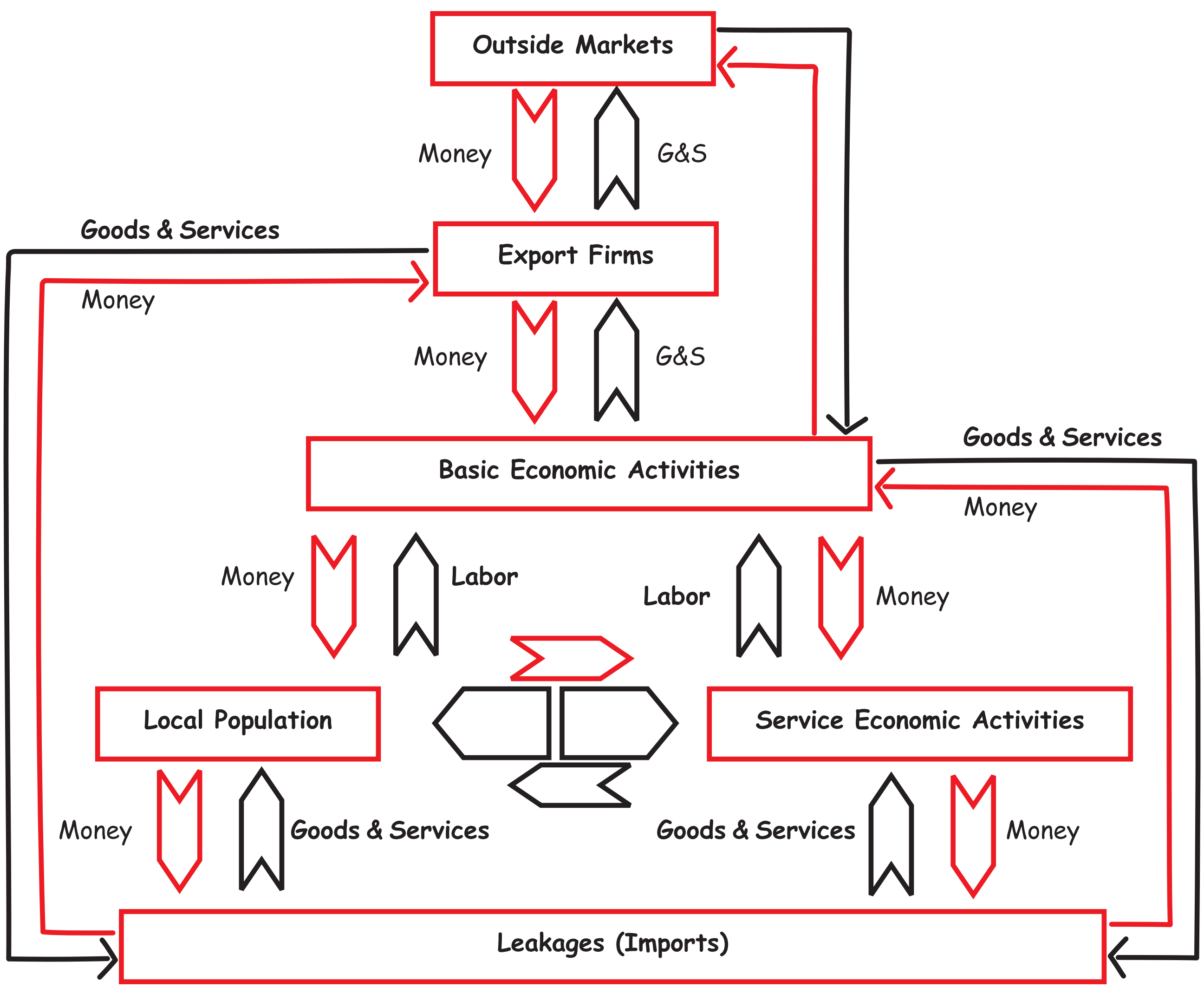


Based on the Export Base Theory, LED plans should include strategies that:

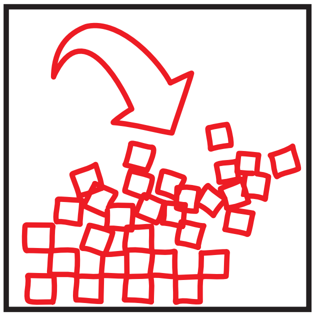
- Attract and develop basic economic activities in the local area to bring-in new money that create jobs and income for local residents

- Develop service (non-basic) economic activities to multiply the new money effects by re-circulating it locally and preventing the „leakages"

Local Economic Activities



Competitive Advantage Theory [3]



Michael Porter's Competitive Advantage Theory will help you understand how to achieve successful economic situations by building and using the local competitive advantage instead of relying only on the local comparative advantage.
This theory proposes LED strategies that you may include in your own LED plan.

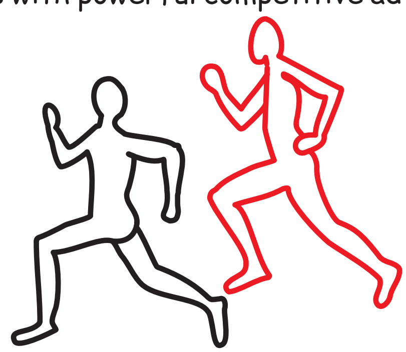
The territory comparative advantage is determined by factors, which in general, are inherited and difficult to be changed:

- Land
- Location
- Natural Resources
- Labor & Local population

The territory competitive advantage over other places is determined by the power of **economic clusters** - geographic concentrations of interconnected companies, suppliers, service providers and associated institutions - which resources, knowledge and skills, give them a key position even the world supremacy, in their field of economic activity.

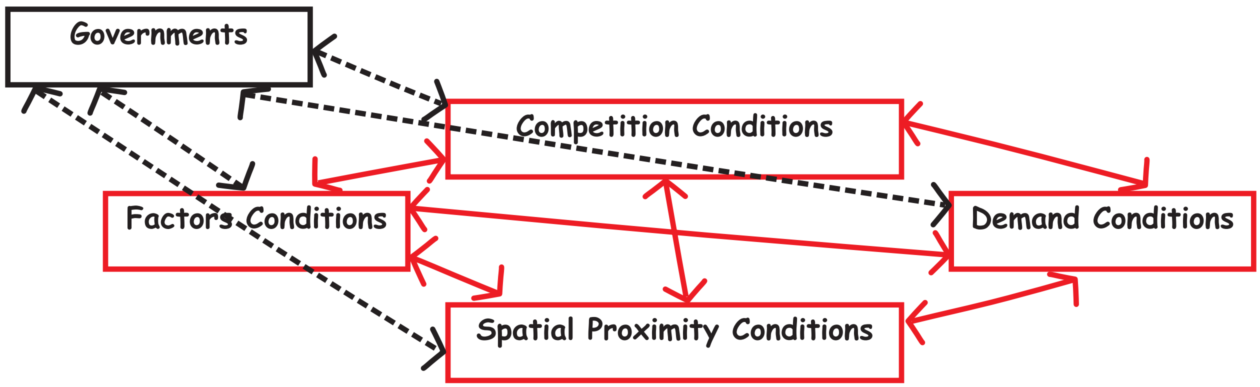
Some well known examples of successful economic clusters with powerful competitive advantage are:

- USA/Silicon Valley computers industry
- India/Bangalore software outsourcing
- France/Paris fashion industry
- USA/Hollywood movies industry



[3] Michael Porter, The competitive Advantages of Nations, 1998

Studying succesful economic clusters, Michael Porter identified the necessary conditions for building and developing the local competitive advantage:



Porter's Diamond Model for Competitive Advantage

Competition Conditions

Direct competition pushes companies to strive for increased productivity and innovation, provides strong incentives to adopt new technologies and working practices.

Demand Conditions

Demanding Customers put a strong pressure on businesses to constantly improve their competitiveness via innovative products and higher quality.

Spatial Proximity Conditions

Spatial proximity of upstream or downstream industries facilitates cooperation and integration of economic activities, promotes continuous exchange of ideas and innovations.

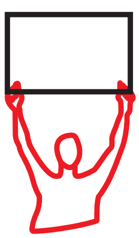
Factors Conditions

Key factors of production skilled labor, capital and infrastructure are created not inherited, argues Porter. Unskilled labor and raw materials can be offered by any territory, and hence, do not generate sustained competitive advantage. Skilled labor, capital and infrastructure, which are built through heavy and sustained investments, are difficult to duplicate. This creates the competitive advantage, because if other territories cannot duplicate them, they are valuable.

Based on the Porter's Diamond Model for Competitive Advantage, (central and local) Governments have a crucial role in the Local Economic Development process. They should promote strategies which, instead of relying on traditional comparative advantages such as natural resources and pools of cheap labor, are stimulating:

- **Competition** in order to encourage, even push, companies to raise their aspirations and performances, by reallocating resources away from the inefficient declining economic sectors toward more efficient companies and growing sectors

  - Regional economic development strategies can help avoid potentially negative internal competition between closely related businesses. A regional strategy can identify how complimentary industries can take advantage of their proximity to one another. Such planning will help provide the required capacity for different organizations to work together effectively.
  - Diversification is also useful, and can be achieved by producing in a cluster different or complementary products or services. Diversification will help prevent the cluster from becoming overspecialised, and hence over sensitive to minor economic fluctuations and national/international competition. At the same time, it is important to maintain a cluster's general specialization.

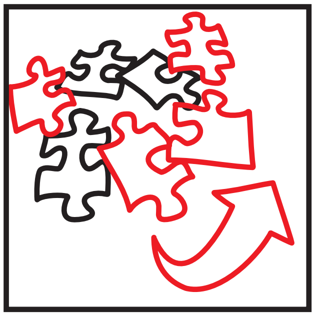


- **Demand** for advanced and high quality products, by supporting innovation, educating and defending customers rights

- **Cooperation** between related industries and private, public and civil society organizations belonging to a certain territory, in order to form viable economic clusters.
  - Many successful clusters have developed naturally over time in response to historic and market conditions, but others have been encouraged to grow through favourable government policies and support, such as tax regulations and incentives, zoning regulations and other location advantages.

- **Creation** of key factors such as skilled labor, capital and infrastructure by public investments

Economic Development Drivers Theory



This theory will help you understand and identify the existing and necessary levels of your local economy drivers: High Labor Skills, Investments, Innovations, Entrepreneurship. This theory proposes LED strategies you may include in your own LED plan.

High Labor Skills
High Labor Skills are economic drivers because:

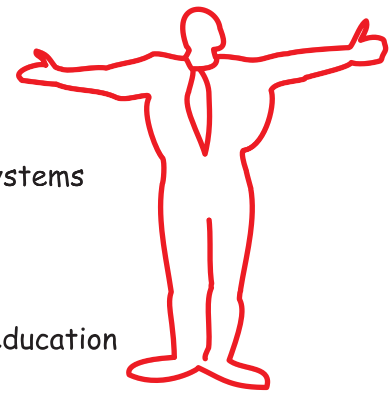
- Today an increasing number of jobs require them
- Higher skilled workers are able to adapt, introduce and operate advanced production techniques and innovations
- Diverse and specialized skills are prerequisite to innovations
- Where pools of skilled labor are available, there are greater opportunities for businesses development and investments

Investments
Investments are crucial economic drivers and both, private and public sectors make them. Public investments should be equitable and targeted to support not only economic, but also environmental and social development.

Private investments are often Foreign Direct Investments FDI, which stimulate the development of new infrastructures or technologies. They are beneficial for the local areas only when:

- The profit “spills over” into host communities and businesses
- The new technologies do not have a negative effect on local competitors, especially on smaller businesses

When locating a business, investors often seek the following:



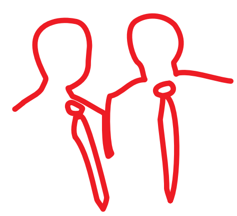
- A stable macro-economic, political and regulatory environment
- Open competition and access to markets
- Readily available sites
- Appropriate, available and reliable utilities and transportation systems
- Skilled labor
- Local suppliers and resources
- Appropriate education, training and research facilities
- A good quality of life: clean environment, access to culture and education
- Manageable regulation and taxation systems

Innovations

Innovations are a crucial source of economic development, by the creation of new products or the design of new production processes. Public and private sectors support innovations by investing in research and development activities.

Entrepreneurship

Entrepreneurship is the ability to create new enterprises having positive influence through the increase of jobs, incomes, fiscal revenues and service economic activities, which re-circulate the income and decrease the leakages.



Based on this theory, LED plans should include strategies that focus on:

- Making equitable and sustainable public investments
- Investing in research and development, supporting innovations
- Attracting FDI that bring benefits to local areas
- Building local entrepreneurs capacity and high labor skills
- Supporting knowledge transfer between universities, local businesses and public authorities
- Supporting SMEs establishment and operation through specific public policies

BEST PRACTICES

We will further describe 4 success stories that may inspire you when defining specific strategies and actions in your LED plan. We have chosen different experiences related to the implementation of strategies that follow the four economic theories conceptual frames, as well as the sustainable development principles.

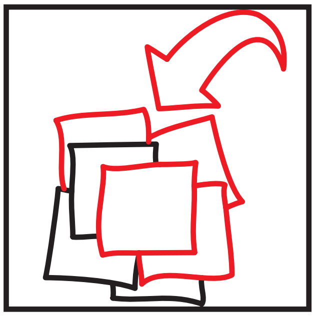
The stories describe LED processes that were focused on local territories/communities of different sizes, from small towns, to big cities or large regions. We have also chosen the following countries, which context are more relevant with Romania's today situation, as new EU member state:

- Italy: Adding Value to Local Products in Montiferru
- Italy: SME Clusters, a Model for Local Development
- Spain: The City of Jerez
- Portugal: The territory of Serra do Caldeirao

It is always useful to learn from others' experiences trying to understand what made economic development approaches and plans successful. But remember that:

- You should not simply copy others' models, because their success was determined by a specific context: national and local policies, local culture, specific economic and social behaviour.
- You should adopt methods and not recipes, in order to build your own successful economic development model

ITALY: ADDING VALUE TO LOCAL PRODUCTS IN MONTIFERRU



The Area

Montiferru is a rural area of 1499 km^2 located in Sardinia, Italy, having a total population of 599.573 inhabitants. Since 1950, the population from this area registered a high level of migration toward urbanized areas in order to find higher income and better access to social services.

As a result, agriculture and all other traditional activities have lost not only their labor force but also their knowledge and skills required to produce the region's traditional products.

The demographic situation gradual worsening had deeply affected the local community through the disappearance of traditional habits and customs and loss of local identity. In addition, environmental problems were caused by the lack of agricultural activity, such as soil erosion, the loss of ecotypes and endemic species.

The Beginning

A Local Action Group (LAG) was organized in Montiferru who started to work under the LEADER initiative, with the main goal to revitalize the region livestock and small craft enterprises.

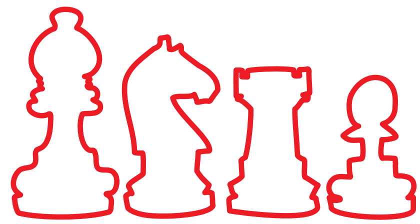
This has been achieved by:

- Adding value to local products and facilitating their access to the local market
- Safeguarding the natural resources which were in danger of becoming extinct
- Promoting the image of Montiferru
- Recapturing the socio-cultural heritage: the habits and customs that previously characterized the area's rural life

Actors Involved

- Cheese producers: mainly women
- Other local producers of honey, extra virgin oil, malvasia wine
- Experts in agri-food processing and marketing

Local Development Strategy



The existence of the ancient cow's milk cheese in the shape of a swollen pear, is especially surprising given that Montiferru is at the heart of an area of goat and sheep cheeses. The LAG strategy was to use this typical local cheese called "Casizolu", made from the milk of a specific breed of cattle, called Modicana Sarda, who graze on free pasture and produce a milk with a distinctive "wood and leaf flavour".

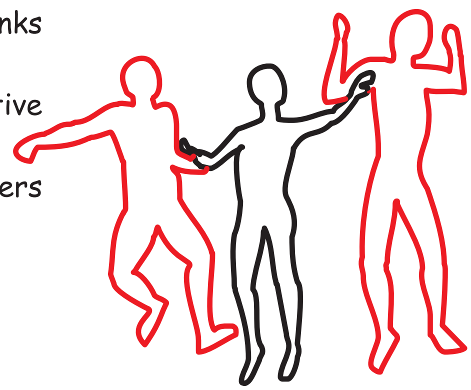
The LAG Montiferru succeeded in the Leader+ program to implement a set of actions within the limit of a small budget, with the focus on helping the local agro-food reach the market place.

The initiative focused on the following aspects:

1. The production process orientation, assistance and optimisation including:
   - Defining and preparing a voluntary code in order to regulate the technical production
   - Defining and preparing the food safety plan
   - Providing specific training about production techniques
2. Direct incentives for the operators, with funding for processing plants
3. Sales and marketing functions orientation, assistance and optimisation by:
   - Launching the cheese as a traditional product that has been "saved" and linking it to the image of Montiferru region
   - Networking with other local quality products
   - Strengthening the cheese presence in the catering sector
   - Helping producers to meet market demands through supply chain management techniques (virtual warehouse)

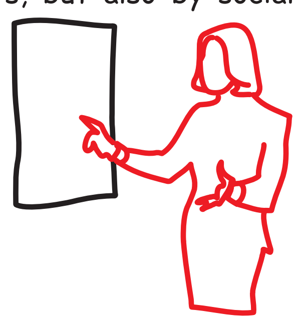
Impact

- The "new" local product was launched in the 2000 edition of the national products show-case in Italy (Salone del Gusto di Torino): the regional press attracted the interest of national press which resulted in articles in different weekly magazines specialized in tourism, and wine gastronomy.
- Arrangements were made to distribute the products within the catering sector: restaurants, hotels, bad and breakfast, etc, have been encouraged to use the cheese in their typical and traditional menus.
- Several other initiatives are now in place to strengthen the organization of the agri-food supply:
    - Support the LAG's internal network as well as the links outside the area
    - Improve production process on quality by innovative means
    - Improve the region's "welcome" and related customers services
    - Facilitate market access for local products

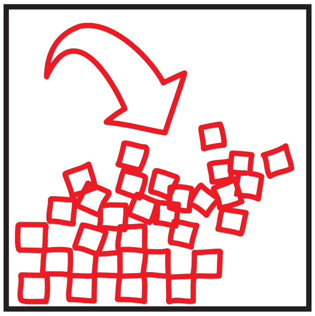


Lessons Learned

- A successful local good quality product could provide a model for other local products in order to build regional identity and prosperity
- A successful strategy is concerned not only by economic factors, but also by social and environmental variables.
- Small amount of money spent through a comprehensive approach could bring significant changes and build valuable models.



ITALY: SME Clusters, a Model for Local Development [4]



Why this model?

In emerging countries and regions, large companies investments in establishing production plants often failed due to problems, such as inadequate infrastructure to support large plants, drained or limited energy resources, insufficient and/or ill-prepared workers, distrust and sometimes animosity between local workers and non-local managers.

Italian experience in its less-developed regions demonstrate that sustainable, long-term development can be based on a bottom-up growth: small firms, growing from local roots, succeeded to increase employment (including self-employment) and to incorporate actors that are usually excluded from economic development like women and young people.

The Italian industrial model is known worldwide as a successful example of development based on SME strongly rooted in their communities. Italian experience has shown that it is not necessary true that a highly developed economy must be based on large firms. Italy economy is characterized by relatively high labor cost and high GDP per capita having in the same time high concentration of small firms: the average size of Italian industrial firms is seven employees, 98% of industrial firms have fewer than 100 employees, almost 90% of firms have fewer than twenty workers. In manufacturing sectors, Italy registers the highest EU percentage of SMEs.

Italian small firms are internationally successful in exporting high quality goods, such those from fashion industries, or other products valued for high-quality design, agro-industrial or other food products, textiles and textile machines, leather and footwear machines, food processing machines, agriculture machinery, wood processing machines, machines for ceramics and metalworking. Italy is also a leading exporter of highly specialized products such as small domestic appliances, eyeglasses, compasses, etc.

How is that Italian small firms can be so competitive? The answer is found looking at small firms not as individual entities, but as part of clusters/groups of firms that, by banding together, are able to create what they are not be able to create as single ones.

[4] Summary from The Italian SME Experience and possible lessons for emerging countries, Patrizio Bianchi, Lee M. Miller, Silvano Bertini, Nomisa, UNIDO, March 1997

What are the SME Clusters?

SME clusters are groups of small and medium size enterprises located in a relatively delimited geographic area, engaged in the production of the same sort of products. Although there is a strong competition among firms, often there is also a high degree of cooperation among them, in the production process, with separate firms responsible for different phases. Specialized firms dived up the labor process and may group together, or regroup, depending on the requirements of the market. The firms are interdependent, but not necessarily have relation of dependency. The small firms tend to be relatively independent even interdependent.

From the interaction of firms, both cooperative and competitive, emerge a collective action. Through interaction, firms establish behavioral norms that influence later behavior.

Differences among SME clusters depend first on their size. In Italy we can find a wide range of sizes of SME systems: from Prato, with more than forty thousand workers and nearly ten thousand enterprises, to very small SME systems, with several hundred workers and fewer than one hundred enterprises. The size of the cluster depend on the age of the district, the extent of the related market, bottlenecks in the local economy, such as physical, administrative, or even cultural obstacles, limited human resources, immobility of entrepreneurial and technical capability.

An other element of differentiation of clusters, is the size of firms within them: clusters may vary from those including only micro-small and medium size firms and excluding groups containing larger firms, to those including even large firms surrounded by their own decentralized subcontractors.

Other aspect that illustrates the differentiation of clusters is the relationship among local partners. Some clusters are based on a single production process; others include related activities and spin-off industries.

Clusters can be grouped into three main categories, often corresponding to the cluster age:

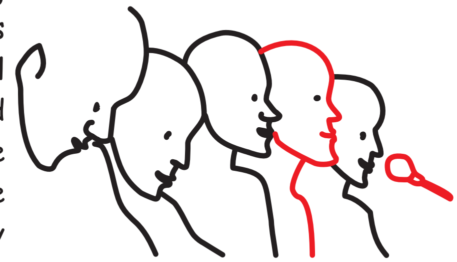
- Embryonic cluster: is limited to the local/ regional market and have firms that work as subcontractors for large firms, often outside the local context
- Consolidated cluster: is able to conquer a wider market, includes more, increasingly specialized firms and begin to acquire an identity as a cluster
- Mature cluster: is able to innovate successfully, produce goods, which incorporate more value-added, and processes of internalization.

Another element to consider is the location of the productive systems: SME clusters could be located in peripheral, or even rural communities, other in medium-size towns, other within the industrial apparatus of medium/large cities. Usually, the rural systems are strictly mono-sectorial and concentrated on production activity, since they lack qualified services and human resources. The systems located in medium-sized towns are more diversified within the same technological filiere and market target, having sometimes diverse productive systems in the same area; the systems located in larger towns, besides this diversification, can easily find qualified resources, due to the presence of service activities, universities and research centers and high quality infrastructure.

To conclude with the list of factors explaining different models of SME development, we should remember that:

- the type of cluster is shaped by the local environment, sectorial concentration and different production processes
- clusters are in continuous evolution: mature clusters tend to stabilize subcontracting relationship, to reduce the number of enterprises, to diversify and innovate products and open their relationship at international level; other clusters are emerging, some starting from traditional activities, other through the creation of subcontracting networks.

Actors Involved



In order to define the actors who may play a role in facilitating cooperative activities among the firms and between the firms and institutions, it is necessary to understand the institutional organization of economic activity in Italy, so called "intermediate governance structure" that include governmental agencies but also business association, service center, the banking system, cooperatives, etc, that directly affect economic activity. The economic behavior of Italian SMEs is influenced by institutions at various level: EU, national regional and local.

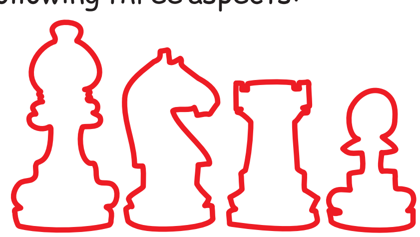
At regional and local level, the following types of institutional actors are active and play the role of catalyst for cooperation:

- Local Governments: City, Province and Region
- Other Local Public organizations: Chamber of Commerce, Convention/ exhibition Centers
- Research and Training Structures: Local Branch of National Research Council, Local Branch of New technology & Environment Agency, Technical Schools and Public Universities, Professional Training Structures, Research Consortia
- Local Businesses Structures: Business Associations & Organizations, Industry Specific Centers, Business Innovation centers and Technology/Industrial Parks, Public and Private Firms, Credit Institutions

SME Clusters Strategy

The competitive advantages of SME Clusters are based on the following three aspects:

- **Specialization**
- **Cooperation**
- **Flexibility**



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