

POLICIES FOR ECONOMIC DEVELOPMENT

The following research was conducted while Rose Olfert was on sabbatical in Chile.

Policies for economic development are often classified into two main types: People-based policy and Place-based.

People-based policies are policies like education and health policies that will improve the well-being and productivity of individuals. In Latin America, Conditional Cash Transfer Programs are people-based policies that make cash transfers conditional on school attendance and health-care checkups, covering over 21 million households and 100 million people. Well known examples are the Oportunidades and the Bolsa Familia programs in Mexico and Brazil, respectively. Universal education or child immunization (vaccination) policies are other forms of people-based policies. However, a highly educated and healthy person may re-locate to where they can earn more income or enjoy a higher quality of life following their education. In this case the place that they leave is no better off and may be worse off.

Place-based policy, in contrast, is the kind of policy where the investments or initiatives develop the assets and capabilities of a community, municipality, territory or

region; the assets and capabilities that are developed are “tied” to a specific place, and cannot leave the region. Examples would include the building of a road or irrigation system, the formation of an association of municipal governments, or the development of a private-public partnership to develop the local economy or to protect a regional ecosystem. The intended beneficiaries are only or primarily the people living in the place or the region, but they will realize these benefits only to the extent that they remain in the region. Further newcomers to the region and future generations in that place will also be beneficiaries. The investment is immobile once it has been undertaken.

People based policies are always a necessary and crucially important part of economic and social development. But there are also good reasons for undertaking place-based policy. Certainly not all regions require special publicly-funded programs or policies as some experience healthy development without intervention. In the case of some lagging regions, poverty reduction and inclusive development may be achieved through territorial initiatives such as the place-based policies referred to above.

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However, not all lagging regions have the assets (including location) that will yield a socially-efficient return on place-based investments. There are many cases of well-implemented place-based programs that have not led to sustainable results and outcomes, once the external support is removed. It is thus important to develop good selection processes and criteria in order to use place-based policies only in those places where the public investment is likely to achieve its objectives, to be sustainable and cost-efficient.¹

The policy quandary is how to identify the communities that are most likely to benefit from place-based policy. And having made a selection, what types of policies are likely to be appropriate to the region, and how can that decision be made?

A comparative study of Canada-Chile-Peru, a joint venture between the University of Saskatchewan in Canada, Rimisp and GRADE within the Territorial Dynamics Program has been undertaken to address these questions. The goal of the study is to develop and refine a methodology that can be used by policy-makers as part of the process of identifying regions that are candidates for place-based policy. We restrict consideration to

rural communities dependent on natural resources in each of the three countries.

Our approach is to first identify those communities that have poor outcomes in terms of poverty and/or population growth (compared with the average rural resource dependent community). This is our definition of Need, that is, based on equity considerations, we first focus on places that have higher than average poverty rates and in this sense need place-based (and other) policies. Second, among all those places that are in need, we devise a way to find out those that have greater capacity to benefit from site-specific intervention. We assess the capacity of a place relative to the performance (in terms of poverty) of the ‘average’ places with the same set of characteristics in terms of location relative to urban areas, the degree of natural resource dependence and a range of other economic, demographic and social characteristics. If a place performs below its potential this means that given its characteristics, it is not doing as well as would be expected (based on the average place). Thus it has the capacity to improve. The policy ‘problem’ we are addressing is finding this balance between Need and Capacity.

Findings (for Chile):

A. *The comunas*

Of the 221 rural comunas in Central Chile (between Regions of Coquimbo and Los Lagos) with available data, 153 were identified as resource dependent. In this set, there were 68 comunas with poverty rates that were clearly worse than the group average of 31% in 2002.

We estimated the relationship between poverty rates and comuna characteristics that are well-known determinants of poverty. These included past poverty, remoteness from urban centers, comuna population size, education levels, age structure of the population, degree of resource dependence, unemployment and migration variables. Then the expected performance of each comuna (given its characteristics) was compared with its actual poverty rates. There were 40 comunas that had both worse than average poverty outcomes, and also exhibited actual poverty levels worse than what would have been expected, given their characteristics (Figure 1). These comunas are of interest for further investigation to see what might improve their performance to be more in line with what could be reasonably expected.

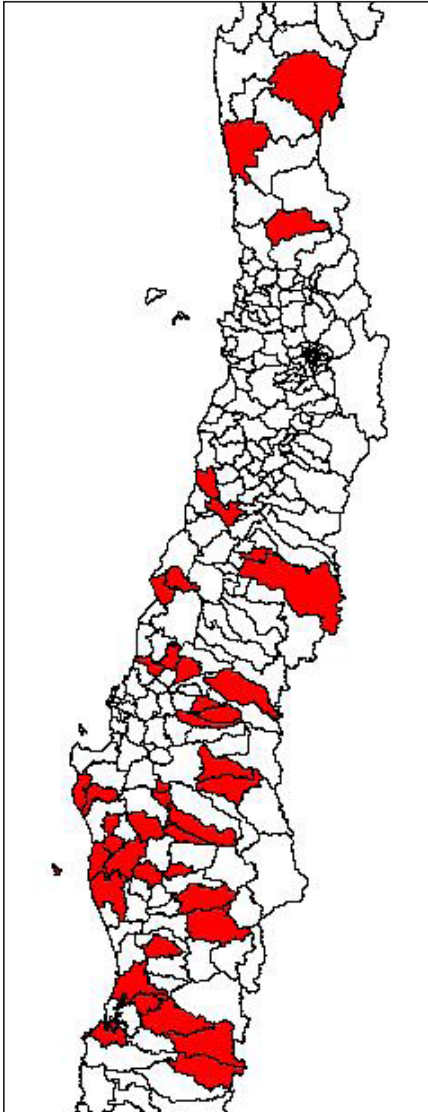


Figure 1: Resource dependent Comunas with high poverty in 2002 and underperforming in poverty models. Regions from “Coquimbo” to “Los Lagos”.

B. The Policy Options

While our analysis and the data

allow us to identify the comunas that fall into the category that we think is of particular interest, finding the solution to improving their conditions is more complicated and probably will be different for each comuna. Indeed the comunas will need to be involved in determining what would be the best fit for their own conditions and objectives. As a first step in this process we identified three comunas of interest (San Clemente, Colbún and Longaví), to conduct interviews with municipal and regional officers, sectoral agencies, local entrepreneurs and a local NGO. These three comunas had different performance during the nineties, but share a substantive poverty decline after our period of analysis. Of the three comunas, San Clemente had exhibited 2002 poverty outcomes that were inferior to what our econometric model would have predicted, making it the prime candidate for place-based policy. The other two comunas, Colbún and Longaví, were added as controls.

Description of Comunas

All three comunas have been traditionally dependent on agriculture, and according to local interviewees agriculture will continue to be of major importance in their futures. In terms of policies already in place, all

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three emphasized the importance of transportation, marketing channels and communication as well as the provision of basic public services. Favorable growing and soil conditions were the basis for agricultural production; irrigation and a fairly active land rental market contributed to an emerging agricultural transformation to newer crops such as berries and specialty seed production, and foreign investors in the sector. Foreign investment was welcome, especially in regard to new crop development and processing. The early development of a tourist industry is evident in some areas.

The three comunas had varying degrees of connectedness with urban centres and saw the potential for utilizing those connections

Table 1: Selected Descriptive Statistics for Study Comunas

Indicator	San Clemente	Colbún	Longaví	All Rural RD Comunas (avg)
2002 Population size (inhabs.) ²	37,261	17,619	28,161	14,543
1992-2002 Population growth rate ($\Delta\%$)	2.33%	3.95%	0.51%	5.1%
2002 Poverty rate (%) ³	39.6%	32.6%	32.3%	31.0%
Distance to nearest urban center (km.) ⁴	21.3 (Talca)	26.8 (Linares) 55.4 (Talca)	19.6 (Linares) 65.6 (Talca)	60.3
Unemployment 2002 (%)	15.0%	12.4%	9.4%	8.9%
2003-2009 Poverty rate change ($\Delta\%$)	-13.1%	-20.4%	-11.1%	-8.0%

further. In one of the cases the comuna was already a dormitory community for a regional urban centre, and was accessing a range of private and public services from that centre. Selected descriptive statistics for the comunas are show in Table 1.

Possible reasons for under-performance

San Clemente was observed to be under-performing as of 2002, at which time its actual poverty

rate was also worse than the average. Given its close proximity to Talca (population 193,755 inhabitants) for both employment opportunities and more input and output linkages failure to take full advantage of these opportunities could account for observed under-performance. In addition, its relatively large own population size would suggest above average opportunities for endogenous growth as well, possibly also under-developed. The seasonality

of agriculture employment leaves a significant segment of the population without employment for a large part of the year, so productive local diversification and as well as strengthening ties to nearby employment would help San Clemente realize its potential. The fruit industry production and

marketing may also hold potential for further improvements, as well as the niche market possibilities for seed production. While good ideas and good work by individuals and particular sectors were evident, additional coordination and cooperation among the various agencies, and a longer term view of its development would produce positive returns for San Clemente. Some of these possibilities may been recently pursued since San Clemente's 2009 actual poverty rate has improved and is now better than the average.

Colbún and Longaví had better poverty outcomes than predicted by our model, in contrast to San Clemente. Given their assets and location, they were doing better than expected. Nevertheless there is room for improvement in these comunas as well. In the case of Colbún, the lake that was formed as a result of the hydroelectric facility, together with existing thermal springs, the appeal of the very

attractive town itself, the possibility of hiking and nature sports and nearby handicraft associations could be exploited further in the development of a tourism destination area. Longaví is heavily reliant on traditional agriculture, seasonal and unskilled labor. Given these characteristics expectations regarding its performance will be limited. In terms of improvements, irrigation could be extended to more remote parts of the region. More professional and technical training of the labor force would improve their productivity both in agriculture and in other pursuits. Programs are especially lacking for medium-sized farms. Ties to Linares, the nearest urban centre are acknowledged but need to be strengthened, as well as ties to Talca. Private investment in fruit processing is one of the highest stakes investments for local actors. Basic capacity and civic participation are still weak, suggesting room for improvement.

Place-Based Policies with Potential

1. San Clemente has a clear asset in its proximity to Talca. Positioning itself as an attractive dormitory community with excellent transportation access to Talca would enhance that advantage through policies that are directed at improving quality

of life for its residents. Its strong agriculture base could be the basis for broader regional development if the agriculture ministry and all other local ministries coordinated their efforts on a regional scale. Coordination and cooperation is required in technical improvements in production and better marketing of products including the specialty seed market. Education and skills development in the local labor force should be coordinated across industries and local governments.

2. Colbún would also benefit from coordinated efforts to improve productivity in the agriculture sector and access to market and processing. However, a special opportunity for this community is the development of its tourist potential. The combination of the lakes and thermal springs, proximity to the Andes, the attractive town itself and nearby handicraft industries need to be developed and marketed in a coordinated way. Training in hospitality services for the local labor force would greatly improve their chances of success. An important highway connecting Argentina and Chile through Paso Pehuenche has undergone important improvements in the past decade, and it could become a major asset for the development of Colbún's tourism and of services to the transportation industry. But

without a coordinated and concerted effort these opportunities could be lost. Coordination is essential across sectors as well as spatially over the larger area.

3. Longaví could benefit from a coordinated effort to diversify its agricultural base and increase technical expertise in existing and new product development. Irrigation development will extend these possibilities and transportation infrastructure will facilitate better market access. The presence of a nearby food processing facility may be exploited for additional processing possibilities. The area would benefit from closer ties with Linares, the nearest urban center. Both in developing basic services in the community and in improving productivity in agriculture, a less fragmented and short term approach is essential. Building capacity in local government is likely worthwhile. For private sector as well as public sector development better integration across jurisdictions, across sectors and with longer time horizons would improve development prospects.

In all three cases, the various place-based initiatives alluded to need to be explored with the community leaders and citizens to find those particular activities for which there would be local 'buy-in'. Within broad guidelines and well-

defined accountability rules, local communities need to decide for themselves the particular form of initiatives that will support the more general place-based policies.

Endnotes

1. Of course, there are special situations where place-based policies are justified based on geopolitical, environmental, cultural or ethnic considerations. Our analysis does not refer to these places that deserve special policy treatments, since we focus place-based policies that generally speaking, aim at stimulating socioeconomic development processes that will become (largely) self-sustaining after a reasonable period of time and level of public (subsidized) investment.
2. 2002 Census data
3. Small area estimates using Census and Household survey data (CASEN)
4. Transportation Minister (MOP) data
5. National statistics institute (INE) data
6. Household survey data (CASEN 2003 and 2009)

