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The value and limitations of success stories in understanding and promoting Local Economic Development (LED)

Lessons from selected cases studies in Ecuador

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DR. JÖRG MEYER-STAMER-SCHOLARSHIP RESEARCH PAPER SERIES

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Abstract

The present paper seeks to revisit current thinking and practice on local economic development, primarily by focusing the discussion on the validity and usefulness of case studies, particularly “success stories”. Evolutionary and historical recreation of local change processes are applied to three case studies from Ecuador that are generally considered to be success stories: Otavalo, Salinas de Guaranda and Pelileo. The comparative framework of analysis seeks to help practitioners understand how success stories and institutional environments cannot easily be replicated but can provide valuable lessons in terms of local change processes and how technological, social and institutional changes influence local spaces. The paper challenges the current practice of using case studies, and in particular success stories, to inform policy and local development planning. By reviewing the literature on LED theory and its close relationship with the use of success stories, it also attempts to underline the validity of the comparative framework.

Keywords: local development, institutions, case studies, success stories, Ecuador

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Contents

Chapter 1 Introduction 1

 1.1 Background and statement of the problem 2

 1.2 Local Economic Development in Ecuador: Context 2

Chapter 2 Conceptual Framework..... 6

 2.1 Success Stories: the basis of LED theorising 6

 2.2 Literature review of Local economic development 6

 2.3 Complementary Theoretical Developments: Institutional Economics and Relational Economic Geography 9

Chapter 3 Case Studies 11

 3.1 Comparative Case Study Analysis: story lines of change 11

 3.2 Otavalo..... 12

 3.3 Salinas de Guaranda..... 13

 3.4 Pelileo..... 14

 3.5 Comparative Analysis..... 15

 1. External versus local actors..... 16

 2. Collective versus individual efforts 17

 3. Technological change..... 18

 4. Political change 18

Chapter 4 Conclusions 20

 4.1 An agenda for future research..... 20

 4.2 Concluding remarks 20

References 22

Acronyms

ACUDIR	Agencia Cuencana de Desarrollo Regional
AME	Asociación de Municipalidades del Ecuador
CONCOPE	Consortio de Consejos Provinciales del Ecuador
CONAJUPARE	Consortio Nacional de Juntas Parroquiales Rurales del Ecuador
FEPP	Fondo Ecuatoriano Populorum Progressio
FLACSO	Facultad Latinoamericana de Ciencias Sociales
FUNCONQUERUCOM	Fundación Consortio de Queserías Rurales Comunitarias del Ecuador
IADB	Interamerican Development Bank
LEADER	Liaison entre Actions de Développement de l'Économie Rurale
NGO	Non-Governmental Organization
SENPLADES	Secretaria Nacional de Planificación para el Desarrollo
UNDP	United Nations Development Program
ILO	International Labor Organization
INSOTEC	Instituto de investigaciones socio-económicas y tecnológicas del Ecuador
RIMISP	Centro Latinoamericano para el Desarrollo Rural
OECD	Organization for Economic Cooperation and Development
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

Chapter 1 Introduction

This paper seeks to critically review the literature on local economic development experiences in Ecuador to answer the following question: what are the value and limitations of using success stories for drawing lessons on local development planning and promotion? Beyond merely relating stories of hope, the focus of LED on success stories can merely provide a rosy picture that oversimplifies the daunting task of overcoming poverty in places with serious structural disadvantages. Given limited resources, local development planning needs to be responsive to the unique and complex environmental, social and political challenges of each individual place or territory. The danger inherent in promoting a local development “model” based on success stories is that in an attempt to draw a blueprint, including generic policy recommendations for economic success, we may be diverting scarce resources away from a response to more pressing needs. The logic behind this *grow the pie first* line of reasoning is that if we turn the region into a prosperous economic area, then all the other problems will be resolved in a classic trickle-down fashion. This idyllic “model”, seductive as it is to local politicians, may lead to erroneous policy decisions. Modelling LED theory on “success stories” can *mislead* decision makers into thinking they can replicate the experience of a certain success story in their own town or city. I remember how the forward-looking and enlightened local leaders of one medium-sized city in Ecuador had taken a field trip to Emilia Romagna in Italy and returned with the idea of using the Italian industrial district model as a cookie cutter model. The local development plan included terms relating to clusters, industrial districts and technological innovation centres. The title included the city name followed by the year 2025. This evolutionary line of reasoning, where policy makers believe that their city can become like another city by promoting certain policies, can become problematic, particularly in places with high poverty rates, low education levels and lack of basic social services.

This paper is structured to include a theoretical review of local and regional economic development, and the role of case studies as the basis of LED theorising. This is followed by a brief review of complementary angles of analysis, and then a comparative analysis of three case studies is undertaken, based on the academic literature and field work carried out in Ecuador from 2006 to 2012 with the Latin-American Faculty of Social Sciences (FLACSO) and the Latin-American Center for Rural Development (RIMISP). This preliminary work simply sets the stage for a discussion on the use of “success stories” for local development promotion and planning, and sets out an agenda for further research.

1.1 Background and statement of the problem

Ecuador has become a living laboratory of development studies and was for many years a favourite poster child of donors. The country has witnessed the passing of myriad tendencies and discourses of development. Ecuador is a country in which within 50 years, fundamental social and political change processes have taken place at the local and national level. It is therefore an ideal place to study change processes over a longer time period. If we want to learn from these success stories, “we need to focus on agency, on the human actors who created and sustained the institutions that provided the context for sustained growth” (Leftwich, 2009). This paper contrasts the “success stories” as related in the academic literature with the author’s reflections while working as an LED trainer in Ecuador, and raises questions on how we can learn from these local change processes and translate the lessons learned to better inform policy decisions.

1.2 Local Economic Development in Ecuador: Context

As Sergio Boisier, a Chilean LED specialist states, local development won the popularity contest in Latin America. Likewise, promotion of local economic development gained popularity among President Rafael Correa’s technocratic “citizens’ revolution”. The Correa administration’s leftist policies have specially emphasised strengthening government institutions, both national and sub-national. Part of this attempt to bring back the state has been to consolidate the decentralisation process through a law of decentralisation, and the establishment of a system of participatory planning. In fact, an incredible amount of legislation and numerous legal norms have been passed under the current administration, including a new constitution, all of which cement this notion of a stronger role for the state, obviously at the expense of civil society and non-state actors¹. The new system of participatory planning² has nevertheless revealed the true state of local governments, many of them overwhelmed by demands of a population lacking basic social services.

The greatest advocates of “local development” in Ecuador have been the associations of local governments. The overall attitude towards local development in the country is generally favourable, given the desire to reverse the historical concentration of wealth and resources in Quito and Guayaquil, the capital city and port metropolis respectively. Intermediate and small cities are viewed

¹ A series of additional laws such as the communications law and new legal code have led to mass demonstrations and discontent among the press and professionals, including doctors.

² According to several interviews with local government officials, local authorities and planners from the national secretariat for planning (SENPLADES), as well as the national-level associations of local and provincial governments (CONGOPE and AME), many small local governments faced enormous difficulties in carrying out planning.

as the way forward as opposed to overcrowded urban centres resulting from a massive rural exodus. A wave of municipal regeneration that started in the 1990s witnessed the rise of several local and indigenous leaders and showcased local governments as potential key players in the promotion of local and regional economic development (Torres, 1999). The experiences of small and medium-sized cities ranging in population from 50 000 to 300 000 inhabitants such as Otavalo, Cotacachi, Ibarra, Cuenca, Atuntaqui, Manta, Machala, Loja and Ambato have shown their potential. The new law of decentralisation³ was the result of this debate for a new multipolar Ecuador. Some of the major achievements of the law included setting clear parameters in terms of responsibilities for the different levels of government, as well as redistributing resources with a formula for central government transfers to local governments calculated using total population, unsatisfied basic needs, and income generated. The law also assigned new roles for local governments, including promotion of regional economic development. However, the process revealed an enormous gulf among local governments. Local governments, NGOs and national planning agencies recognised that local development planning under the new law of decentralisation uncovered enormous weaknesses in terms of the technical capacities of local governments and their planning departments staffed by personnel as varied as local athletes, architects, engineers and former beauty queens⁴.

In recent years, donors such as USAID and the GIZ generously funded programmes for strengthening local governments, including provincial and municipal government, and their national-level associations, CONCOPE, AME and Conajupare as strategic partners to reduce poverty and promote regional economic development. Despite an increase in resources to local and provincial governments however, there are still too few resources given the impoverished condition of many rural areas in Ecuador with no access to water, schools, health facilities, and with persistent problems of corruption, poor governance, violence and environmental vulnerability. Despite claims that the current administration in Ecuador has significantly reduced poverty, social indicators in rural areas of Ecuador tell a different story and the results are quite depressing. According to the latest census data (2010) in rural areas, educational achievement is surprisingly low. The maximum number of years of education completed are on average between two and five years in total in

³ Local and regional development planning, once the domain of few successful local governments with lots of external assistance and technical cooperation, became compulsory overnight with the new law of decentralisation.

⁴ These observations are based on conversations and dialogues with key informants while working for an IFAD-funded national policy dialogue on rural poverty carried out by the Latin American Center for Rural Development (RIMISP), and in relation to work with the FAO's rural women's project in Ecuador for the design of a training programme with the Instituto de Altos Estudios Nacionales (IAEN) in various provinces that assessed the capacities of local governments.

indigenous communities such as Guangaje, Pilalo, Pilaguin or Pungala in the provinces of Cotopaxi, Tungurahua and Chimborazo in the highlands (Colpari, 2011). Poverty rates in these communities are all above 95%. Research by the Center for Latin American Rural Development (RIMISP), based on new census data (2010), found that Ecuador's poorest rural areas remain extremely poor⁵. In fact, the research revealed the dire conditions of poverty of rural populations on the coast, despite the fact that these are rich agricultural areas. By zooming in to the level of the parish, the work of RIMISP showed that many coastal towns that provide seasonal employment in the provinces of Guayas and Los Ríos show alarmingly low levels of public service coverage. High school completion rates for instance are as low as 10%, as the majority of students drop out before completing elementary school. Likewise the average number of years completed are between four and five in total (Guerrero, Samudio & Farías 2011). What was revealing from the research by RIMISP was that the assumption of poverty reduction in rich agro-export zones of the coast does not hold given the lack of public service coverage. These areas may be rich in terms of income, but are extremely poor in terms of basic social services, including access to education, health, and water and sanitation. In these areas economic growth has not translated into improved living conditions. In fact, the diagnostic study of rural poverty carried out by RIMISP (Chiriboga & Wallis 2011) showed that the largest numbers of rural poor live in the coastal areas of Ecuador. These studies and the work of the Rural Dialogue Group, which identified the poorest rural territories of Ecuador (see Grupo Diálogo Rural 2011), were instrumental in achieving what is now a national policy for poverty eradication through the technical secretariat for the eradication of poverty under the auspices of SENPLADES.

In this context, the new role of promotion of local economic development, created as a result of the new law of decentralisation, generated an important demand for training of local government officials on local economic development and poverty reduction strategies. During my time in Ecuador I was involved in the research carried out by RIMISP as part of the Rural Dialogue Group, but was also involved in several training courses⁶ for local government officials. My experience in training several local government officials and planners led me to question the validity of current LED discourse for planning and promoting local and regional economic development. In order to

⁵ The Correa administration's claims of substantially reducing poverty use figures that are heavily skewed by conditional cash transfer programmes that barely raise millions of people just above the poverty line, while most rural areas are still lacking basic social services such as running water. By analysing demographic changes at the local level, it also becomes evident that an accelerated rate of growth is taking place in small and intermediate cities in response to the lack of public services in rural areas.

⁶ Escuela de Gestión Local with FLACSO, Fundación Esquel and the University of Cuenca funded by the Decentralized Government of Madrid, the Rural Women and Development programme funded by FAO for the Instituto de Altos Estudios Ecuatorianos, and the Master's Program in Local Development at FLACSO.

teach LED, I repeatedly used examples of well-recognised “success stories” that have been well documented in the academic literature, such as stories of rural change in Salinas de Guaranda, Otavalo and Pelileo. These stories really represent “poverty policy narratives that convey story lines of cause and consequence, and use a foundational narrative in which economic growth is viewed as the solution to the problem of poverty” (Brock, Cornwall & Gaventa 2001). While using these examples to teach LED, I became aware of the bias of LED theory in terms of its insistent use of success stories. As a trainer I realised that success stories can be a useful tool to communicate and teach LED theory; nonetheless I also realised that we should understand that local change processes take many years and are the collaborative effort of a variety of local and external actors, and there are no short cuts. Finally, my research on rural poverty showed me that entrepreneurial initiatives can transform local communities, but income by itself does not constitute poverty reduction without consistent social services provision by government.

Chapter 2 Conceptual Framework

2.1 Success Stories: the basis of LED theorising

In doing a literature review, it becomes apparent that the legacy of local and regional development theorising is inevitably attached to success stories. Certain story lines are held as examples that prove that local development can in fact occur even under severely unfavourable circumstances. Local development according to Guimaraes (1998) is a practice in search of a theory. Hence in the academic literature much LED theorising has been built from case study material. The theoretical genealogy of local economic development can be traced to the foundational story of flexible specialisation, particularly Piore and Sabel's Second Industrial Divide (1984), and the success story of the Third Italy. Criticism stems from the fact that few cases really fit the mould of the "Emilian model"⁷ (Abramovay, 2006). Our theory of local development has become inseparable from case studies and storytelling, and ultimately the foundation of local development theorising (Corraggio, 2003). One of the major weaknesses, however, has been the insistence on finding case studies that match, rather than contest the theory in a perpetual task of finding proof. In Ecuador a few cases of local development stand out and are generally recognised as success stories in the literature. A growing body of academic literature has focused attention on these success stories. By analysing these success stories, my aim has been to explore the value and limitations of using case studies for LED theorising. Although studies have already been done of successful (and not so successful) social enterprises, cooperatives and local businesses, as well as the supporting roles of NGOs and donors in Ecuador (see North & Cameron, 2003; Breton, 2002; Ospina, 2006), there is a gap in local and rural development studies pertaining to the value and limitations of case studies for theory and practice.

2.2 Literature review of Local economic development

To begin with, there is nothing inherently wrong with using success stories. They are a happy and constructive contrast to the cynicism left as a legacy of rural development projects dating back to the integrated rural development projects of the 1970s that left widespread disillusionment (Breton, 2002). Given the high failure rate of local economic development projects⁸, why insist on the use of success stories? The discussion around successful economic regions resonates with development

⁷ The academic debate has shown that the starting point of the Third Italy with its institutional thickness, incomparable cooperative movement and political conditions make it unique.

⁸ While visiting rural communities in Ecuador, it is common to see several flags from donors and to hear locals speak sarcastically of cemeteries of failed development projects.

practitioners as it offers an “alternative model”. Many practitioners who are more focused on finding practical solutions to common problems have demonstrated deep interest in learning more about LED theory. Flexible specialisation and endogenous development have been viewed favourably as an alternative in Asia and Latin America with semi-artisanal subsectors in medium-sized towns (Knorringa, 1998). This model of small locally grown businesses mirrors the possibilities of many developing countries better than a model based on attracting foreign investors (Guimaraes, 1998). In addition, both bilateral and multilateral donors, the World Bank, UNIDO and the ILO all framed their SME and private sector development policies taking into account the benefits of agglomeration economies and clusters.

While teaching regional development policy, I found myself telling the success stories of European industrial districts. I found that they resonated well and that students could relate to these concrete examples, helping them to understand the theory better. In addition, agglomeration economies and local and regional product specialisation are highly visible in small towns in Ecuador that are identified with particular products. To mention a few examples: woodwork in San Antonio de Ibarra, jeans in Pelileo, leather in Cotacachi, ceramics in Pujili-La Victoria, straw-hats (panama hats) in Sig Sig and Montecristi, shoes in Guano, and jewellery in Chordeleg. Local development planners from distinct regions of the country could identify with the LED theory based on the stories of the Italian industrial districts. One of the training materials I used developed by Francisco Albuquerque (2008) was a guide for LED promoters. It summarised the similarities among successful examples, including a series of generic LED policies, including creation of business incubators, innovation centres, or setting up local development agencies, as well as the creation of producer associations citing the European LEADER program as a success story. Many of these policy recommendations were already being actively pursued with support from multilateral and bilateral donors in Ecuador. Local development agencies, for instance, were created with support from donors such as UNDP and USAID, although the actual success of these institutions was highly dependent on local context. ACUDIR from Cuenca, for instance, was highly successful, whereas other agencies were much more vulnerable to local political conflicts and never really became a force. Another internationally recognised success story from Ecuador is the textile cluster in Atuntaqui promoted by UNIDO and the Inter-American Development Bank (IADB), with an active role played by the local municipality, particularly the mayor.

Digging deeper into the academic literature on local economic development, one finds mixed messages in terms of the validity of the industrial districts angle. Meyer-Stamer’s comparative study of the ceramic tile clusters in Santa Catarina with Sussuolo, Italy and Spain, however, showed that on

a policy level, cluster support in Latin America has shown to hold unrealistic assumptions about the real potential of firms while understating the inertia of the local social cultural milieu (Altenburg & Meyer-Stamer, 1999). Knorringa's (1999) work on the footwear cluster in Agra, India, showed that cooperation is a key factor behind local development success stories that tends to be less automatic in contexts where social relations are unequal. Beyond the traditional examples of Emilia Romagna in Italy and Baden-Württemberg in Germany, researchers began to make comparisons outside OECD countries to test the LED hypothesis in different settings (Rabellotti, 1999; Rabellotti & Schmitz, 1999; Meyer-Stamer et al., 2004; Knorringa, 1999; Schmitz, 2000). Cluster studies in less developed regions showed that agglomeration was not always positive, and led to fierce competition, predatory behaviour and imitation instead of innovation, with an excess supply of nearly identical low-quality items and "survival" clusters. (Meyer Stamer & Knorringa, 1998). Furthermore, the few exceptions in South America, such as Costamagna's (2000) work on Rafaella in Argentina, and the work of Meyer-Stamer in Santa Catarina (Meyer-Stamer 1998) are two examples of local societies characterised by European immigrant communities with higher degrees of social cohesion than average.

In Latin America the research project Rural Territorial Dynamics⁹ of RIMISP, which includes over 100 working papers containing case studies of territorial development experiences (see www.rimisp.org), also uses as a starting point the conceptual framework of industrial districts, clusters and flexible specialisation, and focuses on winners (*territorios ganadores*). Its success stories include Chiloé, Chile, Santa Catarina, Brazil and Tungurahua in Ecuador. In Ecuador the most documented case studies in the academic literature include research on the jeans manufacturers in the rural town of Pelileo by Martínez and North (2009), the Federation of Rural Cheese Producers of Salinas, which is considered an agro-industrial cluster (North & Cameron, 2003; Bouchier, 2006) and more recently work by Paredes (2010) on the textile cluster in Atuntaqui that looks at policies such as territorial branding, creation of local fairs, and clustering promoted by UNIDO.

Undoubtedly, despite its limitations, the theory of LED does provide a common comparative framework. Although many of these success stories have revealed differences from the ideal industrial district "model", they all have some similarities, and fit the general mould of "territorial agglomerations" understood as "a collection of production units in a limited territory such as a city or region, focused on a particular branch of activity" (Storper, 1991). The conclusions from the

⁹ As part of the Rural Territorial Dynamics Program of RIMISP, 19 territories in 11 countries have been analysed, looking at institutions, social capital, links to competitive markets, rural urban linkages and history to determine the common features of LED success stories.

academic literature show that a growing body of evidence built from case studies using this shared framework of understanding has led to valuable lessons for policy and planning:

- Flexible specialisation is a useful angle of analysis to study local economies independent of context.
- Certain generic policies (cluster promotion, local development agencies) have been successfully implemented with support from both bilateral and multilateral donors.
- There is a solid body of research and evidence to support LED policies.
- Social relations and cultural factors such as trust matter.
- Survival clusters show that cluster promotion in poverty-stricken areas leads to oversupply, fierce competition and over-specialisation.

The strong evidence base behind the promotion of local economic development based on success stories should, however, not lead to generic policy recommendations without the use of additional analytical tools to help planners understand that local economies are shaped by individual social, historical, cultural and institutional factors. Finally, the theoretical model is myopic as it focuses only on income-generating activities and overlooks the importance of social and environmental factors.

2.3 Complementary Theoretical Developments: Institutional Economics and Relational Economic Geography

Given the importance of social and institutional factors in shaping favourable local and regional economic outcomes, it is useful to briefly explore complementary theoretical developments from evolutionary institutional economics and economic geography. Several authors highlight the importance of institutional economics to broaden our understanding of the relationship between social relations and economic development. The old institutionalists (Veblen, 1898; Mitchell, 1910; Hamilton, 1919; Ayres, 1944; Commons, 1931) provide insights into the nature of economic change, the role of technology as well as the evolution of financial institutions. Veblen (1898) viewed the capitalist system as a society in constant flux and transition, whereby social relations were continually modified by technology and changing modes of production and social interaction. Veblen's analysis revealed how economic development is not an automatic process but is rather highly dependent upon social structures and hierarchies. For North (1991), an economic system is viewed as a sequential and evolutionary story resembling the development of modern economies as they went from hunter gatherers and agricultural peasants to traders, to much more complex systems and networks. To him the performance of an economy can only be understood as the

sequential story of the evolution of its institutions. His view is that institutions are humanly defined constraints that structure political, economic and social interactions, and include informal constraints (taboos, customs) as well as formal constraints such as laws (North 1991). Granovetter (1985) showed that “economic action is constrained and shaped by the structures of social relations in which all real economic actors are embedded.” Bowles (1998) found that markets and other economic institutions do more than just allocate goods and services and “influence the evolution of values, tastes, and personalities” impacting “traditional” or “indigenous cultures” and shaping culture by creating new aspirations and visions of wellbeing, as well as exposure to new role models. Economic geography also points to the importance of social relations in shaping local and regional economic development outcomes (Bathelt & Gluckler, 2003; Yeung, 2004; Dicken, 2001; Boggs & Rantisi, 2003). Relational economic geography holds that the answer to the classical question of why some regions prosper and others do not, cannot be found within spatial analysis but rather by looking at how actors shape their territories, and in some cases actors can be a single firm. Yeung (2004), Boggs and Rantisi (2003) attribute these conceptual advances in economic geography to the work on flexible specialisation. In their view, “the quality and nature of ties are critical determinants for economic prosperity” and the key to explaining differences in performance can be accounted for by different “forms of socio-economic coordination”. The focus on actors sees that these institutions are non-transferable and cannot be replicated as they are embedded in particular interactions and individuals.

Chapter 3 Case Studies

3.1 Comparative Case Study Analysis: story lines of change

While teaching LED in Ecuador I found it most useful to use examples that could be easily recognised and that had documented evidence of change processes. These cases were Otavalo, Salinas de Guaranda and Pelileo. These case studies were repeatedly used over a period of five years (from 2007 to 2012) to generate discussion with various local development stakeholders including local government officials, planners, aid workers and donors. During this time, I tried to fill in information on how these change processes had taken place over a period of 30–50 years. By reviewing these three documented cases, I found that local development was highly dependent on a multiplicity of factors, including human agency, leadership, technological change and institutions both formal and informal. Furthermore, none of these processes was planned by a local government, but on the contrary happened as a result of several actors coming together. These cases represent success stories where local development was driven by private and non-government organisations with little support from local or national government.

Case Study	Narrative	Actors (external)	Actors (local)	Collective efforts	Technological change	Political change
Salinas de Guaranda	Transformed from being dominated by one hacienda family to a successful federation of rural cheese cooperatives.	Italian missionaries, Swiss technical cooperation.	Community, dairy farmers, woman's group, federation of cheese producers	Group of dairy producers supply cheese factories. Collective brand "el Salinerito" and stores located in capital city. Supply chain of major supermarket Supermaxi.	Artisanal traditional cheese production technology from Switzerland, and modern packaging and milk processing technology.	Strong leadership from parish priest. Traditional rural parish with strong hierarchy. Strong NGO leadership linked to the church, FEPP.
Otavalo	Transformed from being a rural peasant economy to an export-based artisanal and textile manufacturing economy.	ILO Andean Mission Project, IADB, Government of the Netherlands.	Otavalo, Peguche weavers, diaspora.	Construction of the market "Plaza de Ponchos", creation of transnational networks (social capital).	Handlooms, industrial sewing machines and also highly industrialised factories, particularly in Peguche.	Many independent entrepreneurs, democratically elected indigenous mayor.

Case Study	Narrative	Actors (external)	Actors (local)	Collective efforts	Technological change	Political change
Pelileo	Changed from agricultural peasant economy to small business jeans manufacturing agglomeration.	NGO Insotec, IADB.	Local business community, local business association.	Pelileo Jeans Fair and associations that cooperate in joint marketing	Advanced technology for sewing, designing and washing-dying.	Small business owners with some lobbying power. Indigenous elected mayor.

3.2 Otavalo

Otavalo is a city in Ecuador that has seen a major transformation as a result of the textile trade. It is known as the largest indigenous market in South America and is best known for its traditional handicraft weavings. As Korovkin (1998) puts it, in the 1940s to be an Indian in Otavalo meant to be a peasant, but today to be an Indian in Otavalo can mean many things: an entrepreneur, a freelance musician, a textile workshop owner, a teacher, a hotel manager, a politician. In the 1950 the Andean Mission started a project in Otavalo to train local artisans to make new products (belts, bags, sweaters and trousers) using their traditional designs catering to the tourist market which was given new access by the Pan-American Highway. In the early 1970 the Otavalo market, famously known as the *Plaza de Ponchos*, was built with the support of the government of the Netherlands. Otavalans have developed kinship-based networks to commercialise their products in most major world cities and have been extensively researched by scholars on social networks and social capital (Kyle, 1999): “The success by large numbers of indigenous Otavalans in their pursuit of global markets does indicate that the stereotyped portrayals of weak ‘low-status’ groups in the ‘periphery’ following a script assigned to them by the ‘core’ needs to be modified. How a group of ‘peasants’ from a rural countryside in the Andes launched a booming ethnic economy, and in the process incorporated not only their own craft production but that of other indigenous groups throughout Latin America, is a remarkable story” (Kyle 1999: 436).

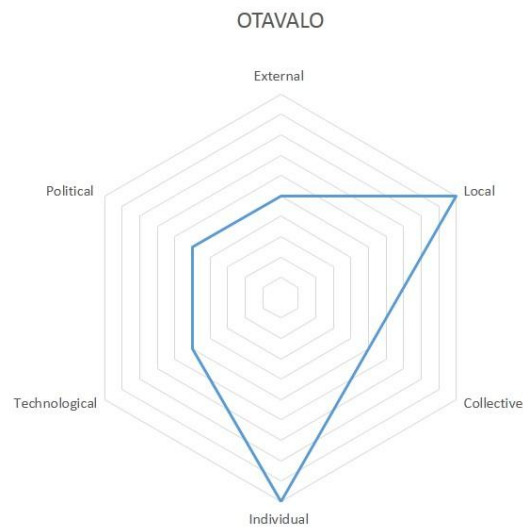


Figure 1: Otavalo

3.3 Salinas de Guaranda

The story of Salinas is about a place in the highlands of Ecuador where one family owned the entire territory surrounding the community. They had no electricity, potable water and telephones, and most of the population was illiterate. Furthermore, the indigenous people collected salt from a nearby salt mine, but when the national government prohibited any salt that was not iodised, the community was out of work. In 1972 a group of Italian missionaries arrived and created the first cooperative. In 1979 they started the first cheese factory. Today the Consortium of Rural Cheese Producers of Ecuador FUNCONQUERUCOM has 60 community cheese factories in several provinces that provide employment to over 2 000 people. Furthermore, dairy farmers have arranged to supply the cheese factories, and a series of other activities have developed showing a wide process of economic diversification (North, 2003). They have created their own brand, “El Salinerito”, and have their own delicatessen markets in major cities such as Quito and sell 15 varieties of cheese to the major supermarket chain of Ecuador, Supermaxi. Salinas is also an example of a territorially based brand and is considered an example of rural industrialisation (Bouchier, 2006). According to Bouchier, the case of the rural cheese factories of Salinas de Guaranda in Ecuador is one of the most successful initiatives and is often used as an example of rural agro-industrial clusters in Latin America. “The process to activate the territorial resources of the Parish of Salinas, in the province of Bolivar, began 30 years ago when this poor community located in Ecuador’s central highlands joined forces, for a common purpose, with some Salesian priests, particularly Father Antonio Polo, and a

Swiss cheesemaker named Jose Dubach". According to Liisa North, three key factors in the Salinas story cannot be ignored: first a local agrarian reform pursued by the church on its own lands, charismatic leadership, and lots of external assistance.

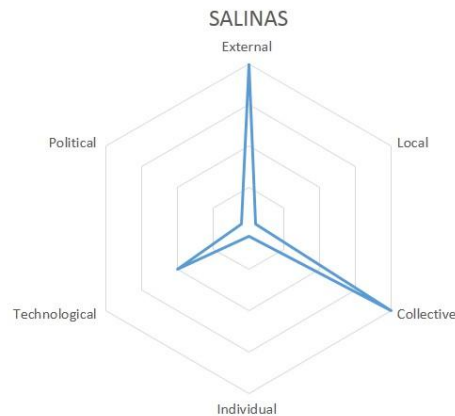


Figure 2: Salinas de Guaranda

3.4 Pelileo

Pelileo is a small town in the province of Tungurahua in the central highlands located near the market city of Ambato. It is well known for its cottage industry for the manufacture of blue jeans. According to Liisa North (personal communication), the industry in Pelileo started before any external intervention with the first workshop set up by a local entrepreneur called Cesar Paredes in 1968. The industry grew in the 1970s and 1980s, and received help from an NGO called Insotec that received funding from the Inter-American Development Bank (IADB) in the 1980s. Pelileo had its boom as a jeans manufacturing town. This growth was also a product of import substitution industrialisation policies. Studies by Martínez and North (2009) heralded Pelileo as an example of how rural communities turned to rural non-farm employment, particularly home work in manufacturing as a livelihood strategy to combat the decline of agricultural productivity as a result of land degradation and lack of access to land and water. The study reveals a series of non-market relationships based on reciprocity which characterise the small family business and a variety of survival strategies in order to cope with volatile markets. In their book on Pelileo, Martínez and North (2009) describe family enterprises and social capital of an economic activity that has been

successfully operating in Pelileo for 40 years, “jeans manufacturing”. Their work was critical in highlighting how small, isolated initiatives are feeble if not accompanied by public policies.

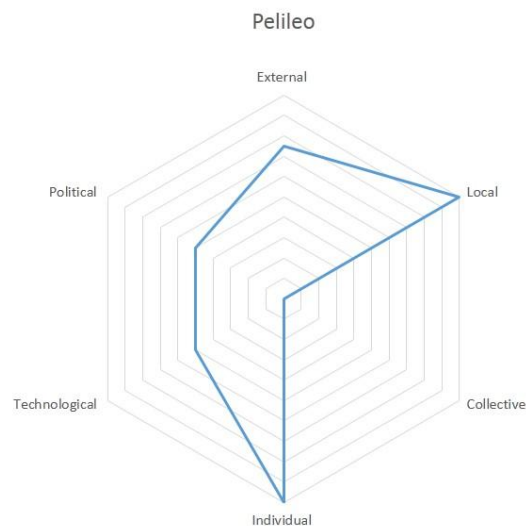


Figure 3: Pelileo

3.5 Comparative Analysis

The following is an analysis of the different external and local actors involved in each case study, a brief summary of key collective efforts, and a revision of technological change and political changes. The visual representation of each case study found in Figures 1, 2 and 3 weighs each one on a scale of 0 representing none, 1 representing important but not the most important and 2 representing the most important factor. In this way in Salinas the most important actors are external actors, the change process is characterised as a highly collective endeavour, and technology also played a critical role. In Otavalo, although external actors did play a role, they are viewed as of secondary importance to local entrepreneurs, change is viewed more as an individual than a collective endeavour, and both technological and political changes are weighed as being of primary importance. In the case of Pelileo, external actors are important but also secondary, the process is mostly individual, and technology plays a key role. Political change is not necessarily linked to economic change.

The following is a comparative analysis of the factors at work in shaping distinct local development story lines. Although many variables are at work, a few selective factors are analysed to look at the role of (1) external actors vs. local actors, (2) collective vs. individual efforts, (3) the role and

influence of technology (understood as productive capital/productive assets), and (4) the weight of political change.

1. External versus local actors

What can be clearly seen throughout the selected cases is that, according to the literature, external actors played a catalytic role. After reviewing the literature on all three case studies, one key question that emerged was whether the process was endogenous or externally driven. According to the account provided in the academic literature, the process of local development in Salinas started with the spark by an external agent. In the case of Pelileo, the jeans industry was initiated by a local entrepreneur who later got support from an external agent (NGO). In the case of Otavalo, external agents helped to launch an economy that had already existed for a number of centuries. Based on the account provided by a student native to Otavalo (who had also worked with the local government), the textile trade dated back to the Obrajes set up by the Spanish crown in the seventeenth century. Weaving is thus an inherited skill that dates back several centuries. The tradition as merchants and traders is also ancestral and in Kichwa is called Mindalae. Nevertheless, the economic boom started when the inhabitants of Otavalo took over their own economic fate in the 1960s with support from external donors. Based on accounts provided by researchers from FLACSO, and information from the website, the first cooperative in Salinas was established by a group of Salesian missionaries from Italy. The account in the literature by Liisa North, a scholar who has published several books on cases of endogenous development in Ecuador, is that in the case of Pelileo a local businessman started a textile workshop that was later imitated by his neighbours in the late 1960s¹⁰. It is difficult to confirm whether the processes were endogenous or externally driven; however, there certainly was a strong interaction between local entrepreneurs, local authorities and external funders and donors.

The external assistance opened up a window of opportunity for the emergence of a local agency where local actors afterwards took control or ownership over the initiative. Less is known about the role played by local actors, as most of the credit goes to the external actors. However, contrary to what is commonly believed the role played by the external actors is less significant in both Otavalo and Pelileo. In the case of Otavalo, beyond the initial impulse of the technical assistance to teach “design” and the funding for the construction of the market by the Dutch government, Otavalo merchants and entrepreneurs opened up markets themselves. The primary role of the external

¹⁰ The similar time frame corresponds to a time when import substitution industrialisation policies had an important role in sparking local industries.

actors was as facilitators through the provision of training and credit. Local entrepreneurs created dense networks of distribution, including a vast transnational migrant network outside any structured development intervention. In the case of Pelileo, beyond the initial credit used to purchase machinery provided by INSOTEC (productive assets), the local entrepreneurs played a key role. The credit provided the necessary capital to grow the cottage industry. In the case of Salinas, the role played by external actors was much more significant. Several donors, particularly the NGO FEPP, were instrumental in guiding the entire process. FEPP for instance runs the retail shops in Quito, and helped the entrepreneurs to gain access to the major supermarket chain Supermaxi. In Salinas much of the credit goes to the Salesian missionaries and FEPP. This would be considered an externally driven initiative.

2. Collective versus individual efforts

In the case of both Otavalo and Pelileo there is no single collective entity. In Salinas the organisational structure is a cooperative model. Now called Grupo Salinas, it includes a credit and savings cooperative (COACCSAL, established 1972), a community-based association group (FUNORSAL, established 1988), a youth organisation that includes a bakery and other enterprises (FUGJS, established 1976), and Producoop which was the first cheese production cooperative (established 1978). This experience shows the emergence of credit and savings, the establishment of production centres, factory organisation, and distribution and commercialisation. As indicated in the research by North, the whole process took over 30 years to attain its current success. The brand “Salinerito” has become a “relational” and “territorial asset” given its wide recognition on a national level. These collective efforts differentiate the initiative from the initiatives of Otavalo and Pelileo, where the initiative of individuals was paramount and where collective action was less successful. In the case of Otavalo, although there are fewer collective organisations and the initiative has been driven by private entrepreneurs, the relational aspect is crucial. The effectiveness of the local economy is based on a vast network and division of labour and is based on interpersonal relationships. These networks are informal, however. Critics state that Otavalo’s economic success is based on unequal power relations and is at the expense of rural populations. According to an artisan from the town of Salasaca, Otavalans are simply traders¹¹ (retailers). Despite external support including training and credit, the entrepreneurship of Otavalo merchants has been lauded all over

¹¹ Otavalos sell handicrafts produced by other indigenous groups such as the Salasacas, Saraguros and Peguche Indians. They market the product as “Made in Otavalo”, although the production is actually done outside Otavalo in surrounding rural villages.

the world. This experience of local development is characterised as driven by local private entrepreneurs, organised into informal interpersonal networks.

In the case of Pelileo, as Martínez and North (2009) clearly point out, despite efforts to implement collective action, the results have not been positive. A few organisations have been set up, including trade guilds, but their bargaining power is limited. Pelileo is, like Otavalo, driven by private individuals. Some merchants opened markets in the capital city Quito, but this agglomeration shows lack of access to more dynamic markets and is still primarily local. Pelileo small businesses still require buyers to physically visit the town to buy jeans in the absence of well-developed commercial networks. There is no link to global buyers. The lack of access to large buyers evidences a survival cluster where local entrepreneurs face enormous difficulties in terms of competing with imported products and staying in business. Pelileo was driven by local entrepreneurs, but the assistance from external actors was key, particularly to the purchase of machinery.

3. Technological change

All three case studies evidence how industrial routines transformed social relations in these formerly rural peasant communities. In the case of Otavalo, and in the town of Peguche, workshops have impressive capital investment in heavy industrial machinery to manufacture textiles for the mass market, and reprogrammable short-run manufacturing technology. Otavalo weavers who started with wooden handlooms manufacturing artisanal and handmade products have a highly mechanised process today. In Pelileo entrepreneurs have acquired advanced technology for bleaching and washing jeans as well as sewing machines. The production process plays a key role in structuring routines, in ways of doing things, and in everyday life. The progression from artisanal to industrial production in all three cases mirrors Veblen's evolutionary theory of economic change. In all three cases, what was once an agricultural indigenous population has been replaced by factory workers operating sophisticated industrial equipment and following industry-wide safety standards, including changes in the dress code. In each case production is culturally internalised, so that the community identifies itself with what it produces: Salinas is a cheese industry, and Otavalo and Pelileo are textile industries.

4. Political change

Although political change in these local communities is beyond the scope of this paper, one can make some brief generalisations. Otavalo is the only case where important political changes have been documented in the academic literature (Ospina, 2006). In Salinas political change has not been a causal effect of economic development, and a rather traditional political climate remains where

the church parish continues to play a significant role. The traditional political structure dominated by a church parish persists despite economic changes. In Pelileo, radical political change did come at a slower pace than in Otavalo, but likewise previously excluded groups took office via the indigenous movement. The current mayor of Pelileo is an indigenous leader who came out of the Plurinational Pachacutik movement.

Chapter 4 Conclusions

4.1 An agenda for future research

Based on second-hand testimonials, interviews and the academic literature, very little is still known from the perspective of the local population. These “success stories” continue to be told from the perspective of the aid worker, the researcher, or NGO. This explains the emphasis on “success stories”. Furthermore, the above classification of each case study is based on subjective judgment. New research tools such as Sensemaker® could allow us to collect micro-narratives from the perspective of the local actors themselves. This groundbreaking methodology developed by David Snowden (2002) helps us to skip altogether this type of expert classification, allowing respondents themselves to rate their experience, which makes the results more convincing. It would be interesting to hear from the entrepreneurs themselves how Otavalo, Salinas and Pelileo have changed in the last 30 years and to find out from their standpoint who the protagonists were in the local change process. It would also be interesting to hear whether or not they themselves consider it to be a success story.

4.2 Concluding remarks

Case studies, and particularly success stories, have been the primary material on which LED theory has been built. The use of success stories has many advantages: storylines and historical narratives provide us with an understanding of change processes. However, the logic of cause-and-effect relationships and its implications for policy is not as clear. As the extensive literature on local economic development shows, we have learned a lot from analysing case studies and specifically from comparative analysis. By embracing comparative case studies this paper suggests that analysis should at least include mapping out the role of different actors, the role of technology, social relations and power relations, at best to understand the complexity of local development trajectories. The selected cases are examples that have been around for decades, and have been, in the words of Murat Arsel from ISS, been studied to death. Nonetheless, we continue to see how planning and practice insist on replicating best practice and showcasing success stories. How to bridge the divide between research and practice is beyond the scope of this paper, but I do feel that a discussion about the value and limitations of case studies, and particularly the use and abuse of success stories, needs to be at the centre of our debates moving forward.

During my stay in Ecuador as a researcher and LED trainer, I faced a lot of resistance from students given the narrow economic focus of LED theory. Looking back, I understand now how, in a context of

more holistic planning, our LED models based on the success stories of European industrial districts seem misplaced. In the selected case studies groups traditionally considered weak or marginalised successfully improved living conditions for the local community, transforming the local reality from one of rural agricultural peasants to a developed cottage industry or market town. In all three cases, the role of government was minimal as they represent stories staged during what in Ecuador is commonly referred to as the neoliberal era. In promoting the gospel of the market to a highly sceptical audience during the height of the citizens' revolution, I realised that the theory of local economic development is heavily skewed. These stories, although fascinating, can however, be misleading on a policy level. The language of innovation and clusters can lead to the creation of white elephants in a context where investment should be more geared to catching up with decades of neglect in terms of basic social services and other more pressing needs. Although comparative case studies are a very useful tool for understanding economic development change processes (and are particularly useful as a training tool), we must caution policy makers about the complexity, time and resources that led to the establishment of these success stories.

Furthermore, we need to do a lot more to understand the role of the local entrepreneur in the process. From preliminary observation and based on the collected evidence, it seems as though the role of external actors has mostly been in the provision of credit, training, technical assistance and commercial linkages. The risk, however, is that market development is a complex task with many interdependent variables where many things can go wrong. Continuing to use case studies and particularly "success stories" may create a distorted picture of the challenges inherent in regional and local economic development processes. By focusing on success stories we are missing out on the valuable lessons learned from failure, as in the many examples of development projects that end up in businesses that never took off, leaving behind abandoned equipment and lots of frustration. Moreover, as can be seen in these cases, none of them was driven by local government planning. Finally, in a context of limited resources and huge deficits in terms of basic social services, an entrepreneurial government with active LED policies may not be welcomed as a priority, but rather viewed with suspicion as a donor imposition. In my experience of teaching LED in Ecuador, I welcomed the healthy scepticism of local development planners who told me that it might have worked in Italy, but this is not Italy! The bigger question is, should local governments become the new NGOs?

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