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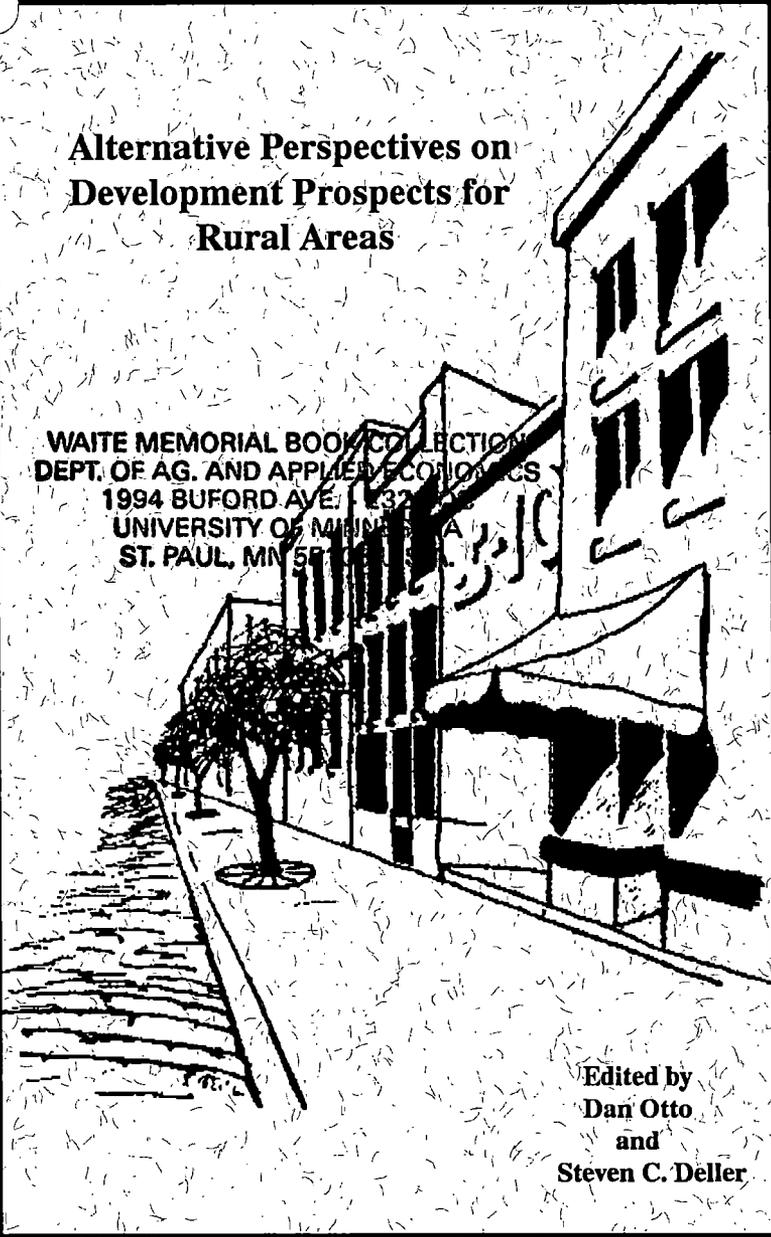
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## **Alternative Perspectives on Development Prospects for Rural Areas**

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## COMPREHENSIVE BASES FOR LOCALLY INDUCED DEVELOPMENT

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### INTRODUCTION

The phenomenon of local or community economic development has existed, both in theory and in practice, for many years. While its formal roots can perhaps be traced to the Antigonish Movement on and around Nova Scotia's Cape Breton Island during the Great Depression, local development began to attract a wider degree of attention in the mid 1960s with the emergence of community development corporations in a number of U. S. inner city areas. During the 1970s and the early 1980s, while remaining somewhat an "underground" approach, local development began to gain acceptance in policy and academic circles, and to diffuse into a broad range of developed and developing countries. Since the mid 1980s, however, due to a rapidly changing economic and social context, local development has increasingly come to be viewed as an indispensable alternative approach to the economic development of both rural and urban areas.

The purpose of this paper is to present a framework for the analysis and the utilization of the local development approach, and to explore its relevance for the economic development of rural areas, in particular. After first sketching the economic and policy context in which current local development efforts are situated, we propose some elementary definitions and consider the conceptual

bases underlying the local development approach. Next, we explore some of the issues that need to be understood in order to successfully promote local development.

### THE PRESENT CONTEXT

The context in which current local development efforts are situated is much different than it was a decade ago. First, the concern with economic equity across regions (in whatever manner that they may be defined) has proven to be a luxury in which most central governments can indulge only when the national economy is relatively buoyant. During periods of economic crisis, recession and major budgetary deficits, such as those that have characterized recent years, few national governments can afford to devote scarce resources to redressing regional disparities, being preoccupied instead with the issue of national economic growth and efficiency. The latter preoccupation is often translated into assistance to firms located in the most prosperous (generally metropolitan) areas. In Canada, for example, where combatting regional disparities had attained the status of a national pastime during the period 1955-1985, the recent withdrawal of resources from regional development programs and the elimination of the departments concerned with regional policy has been dramatic. The same pattern has been repeated in other developed countries. Further, the retreat from the regional development arena by most central governments has seriously undermined the ability of the second tier of government to effectively operate its own regional programs.

Second, at the same time, there has arisen a "the natives are restless" phenomenon. In the countries with a history of explicit regional policies (a set which does not include the U. S.), the relative ineffectiveness of traditional "top-down" measures (see section 3) and the consequent persistence of regional disparities in

income and in employment opportunities have discouraged the inhabitants of many disadvantaged areas and have sent them searching for alternative solutions. Conversely, in countries such as the U. S., marked by relatively minor central government intervention in the regional arena, the recent economic performance of certain areas has stimulated both the local population and local institutions to take action. In the case of rural areas in the U. S., for example, there is considerable evidence that the "renaissance" of the 1970s was only a temporary aberration. Economic and demographic indicators suggest that a growing divergence between rural and urban areas exists (Beale, 1988; Brown and Deavers, 1988; Henry et al, 1987; Hoppe, 1987). In Canada, in spite of some non-metropolitan population growth during the 1970s, the renaissance never really occurred (Coffey and Polèse, 1988). Among other factors, the metropolitan-rural gap has been exacerbated by structural shifts in the economy which have favored the growth of skilled-labor intensive activities (i.e. producer services), which tend to concentrate in large cities in order to take advantage of a large and appropriately trained work force and other agglomeration economies.

In sum, given the absence of any regional policy in certain countries, given the simultaneous lack of effectiveness of traditional "top-down" policies and withdrawal of central government resources in those countries where it has existed, and given the widening disparities between metropolitan and non-metropolitan areas, the local development approach presents itself as an alternative framework that has the potential not only to fill a policy vacuum but also to respond to society's needs. In many ways, current interest in local development is the result of a self-defense reflex on the part of local communities: all else has failed. This situation contrasts sharply with that existing at the beginning of the 1980s,

where certain national governments began seriously considering the possibility of integrating local development into their existing range of regional development policies.

#### DEFINITION AND CONCEPTUAL BASES

The term local refers to an event or a process which is initiated and/or sustained within a regional or sub-regional unit. More significantly, "local" also implies a sense of community, broadly defined: a geographic space in which a relatively homogeneous population shares certain social and/or economic objectives. As in the case of the concept of "region", the spatial scale implied by the adjective "local" is highly fluid; it may encompass the territory of several counties, a set of villages, a municipality or an urban neighborhood. This fluidity represents, simultaneously, a major strength and a major weakness of the local development approach. Development is a process of economic and social growth, accompanied by a structural shift, that is both long-term and irreversible; the more tangible results of this process normally include an increase in the relative productivity of a region's economy and thus a rise in the per capita income of its population.

Local (or endogenous) development is, therefore, not simply the development of a locality; rather, it involves an approach to development in which the local population, local institutions and other local factors (e.g. socio-cultural and behavioral attributes) act as the main engine of social and economic growth. It differs from traditional, top-down approaches to development in a number of significant ways: the integration of economic and social objectives within a broad, long-term strategy; a focus on cooperation between interest groups; and the active participation of local people in the design, priority setting and implementation of a development strategy (Coffey and Polèse, 1984). In the following portion of this

section, we examine the conceptual bases underlying the use of the local development approach as a framework for stimulating community economic development.

The potential role of local development as an element of regional development policy may, in large measure, be seen to result from its complementarity with three traditional pillars of regional development theory and policy: the role of capital and infrastructure subsidies; migration as an adjustment mechanism; and the growth center approach (Coffey and Polèse, 1985). These elements will be considered briefly in turn.

**Human Capital vs. Physical Capital.** Although regional development specialists have long acknowledged that development is not a uniquely economic process, their behavior has often borne little resemblance to their words. Government policies and academic theories alike have generally emphasized the need to assist lagging regions in acquiring those locational characteristics judged to make them more attractive for plant location. Physical infrastructure is often expanded in an attempt to make an area appear more suitable to industry than a competing area and/or private investment is subsidized. Expenditures on education, health and social services rarely figure among the policy elements, largely due to the basic problem of measuring the returns to society on investments in human capital. It is somewhat ironic, however, that the literature on economic growth provides considerable justification for expenditures designed to improve human capital. Attempts to measure the sources of economic growth, in particular the various applications of Denison-type models (Denison, 1974), have generally concluded that a large proportion of per capita income increase may be attributed to a "residual" involving social and institutional factors such as the growth of knowledge, innovation, management skills,

entrepreneurship and so forth (OECD, 1965). Thus while not necessarily supplanting the more traditional views and strategies of regional development, the "people development paradigm" clearly appears as a necessary complement to investment in physical capital.

**Migration and Economic Adjustment.** In the neoclassical regional adjustment model, population is essentially regarded as a set of labor inputs to be (efficiently) allocated or reallocated according to changing demand conditions. The model assumes that by redistributing labor, interregional migration will cause interregional differences in unemployment and/or wage rates to be minimized; failure for a lagging region to adjust via labor outmigration will result in higher relative unemployment and/or lower relative wages. By extension, government policies which discourage migration (e.g. transfer payments, unemployment insurance) may be seen to perpetuate disparities (Courchene, 1978). In fact, however, a well developed literature demonstrates that migrants generally comprise a proportionately higher percentage of educated individuals and of those persons possessing characteristics associated with a high potential for economic improvement; they embody not only labor but also other sources of growth -- capital, education and entrepreneurial initiative. In short, it is not unreasonable to suggest that regional growth and development depend as much, if not more, upon the composition of the population as upon locational, infrastructural and resource characteristics. Given this perspective, policies which emphasize keeping people in a region, raising their skill and knowledge level, and encouraging local entrepreneurship would appear to be instruments of regional development which are at least equally valid as those which seek equilibration through migration (Carel et al, 1989).

**Growth Centers.** Unlike the neoclassical model with its faith in the free market, the growth center approach generally involves a considerable amount of state intervention. In its traditional form, it attempts to selectively create the stimulus for growth in a region by establishing at one or more centers conditions conducive to economic expansion -- agglomeration and scale economies, infrastructure and service availability, linkage patterns and population and labor thresholds. One weakness of the growth center approach is that in its focus upon agglomeration and linkage effects it generally ignores the spatial origins of investment. The extent and nature of linkages, in the form of subcontracts and intrafirm flows, are greatly influenced by the location and behavior of head offices of multibranch corporations. Investments originating outside of the region often generate a much lower level of linkage effects; such is often the case with the branch plants of externally controlled corporations, which often rely upon firms in proximity to their head office for material and service inputs. In sum, the maximum retention of linkage effects would seem to require some minimum of local initiative and control.

Thus, in many ways, the concept of local development harkens back to both a sociological perspective, one emphasizing the importance of human resources, and the viewpoint of political economy, stressing the locus of ownership and control. Such emphasis upon social change and local control is the basis of many of the challenges facing this approach. In sum, local development may be seen as a partial response to the limited success of the mainstream theories and policies of regional development that have characterized the past three decades in many nations. The conceptual basis for a local development approach as an alternative and/or complementary regional development policy is in part contained in the inverses of the three frameworks presented above: people

development and the role of "inferior goods" such as education; the indigenous population as a fundamental element of the regional economic base and as a potential source of growth; and the decentralization and autonomy inherent in the concept of territorial development.

#### THE OPERATIONALIZATION OF LOCAL DEVELOPMENT: SOME FUNDAMENTAL ISSUES

The local development approach has established a track record of successes; it has been clearly demonstrated that, in certain instances, this approach can bring about an improvement in the economic and social vitality of a community (Economic Council of Canada, 1990). But, like any other regional development initiative or like any private sector business venture, local development efforts have also known failure. What distinguishes the successes from the failures? In practice, what makes the local development approach work? Obviously, there are no simple answers to these questions. At best, we can identify certain issues that must be taken into consideration when implementing a local development approach and, based upon a growing literature and an increasing range of practical experience, offer some suggestions for dealing with these issues.

**Responsibility.** Who should assume the responsibility for organizing, implementing and supporting local development initiatives? It is clear that the sine qua non of local development is the willingness of a community to assume the responsibility for its own future; thus, the impetus for local development efforts must emerge "from the bottom up", and all major decisions must be made within a community itself, so as to reflect its wants, needs and aspirations. Available evidence indicates, however, that most communities

cannot embark upon local development efforts entirely without a certain degree of government financial support; given the relatively disadvantaged position from which many communities begin their local development efforts, some type of financial support is essential, at least in the short-term.

If one accepts this premise, the next logical question then deals with which of the three levels of government (municipal, state/provincial, or federal) should have the responsibility for providing this necessary financial assistance. Each level has both an interest and a role to play in community economic development. While the municipal level is generally in most direct contact with local development efforts, it is often in the least favorable position to provide financial support. And, constitutionally, municipalities are creations of the states/provinces, which are directly responsible for the former. While the federal level generally has the greatest resources, it is *de facto* furthest removed from the community level and *de jure* often unable to establish direct contacts with the local level. Thus there are important issues to be addressed involving the interaction of local communities with federal, provincial and municipal governments, and involving the coordination of the efforts of the three levels of government.

While specific solutions to these issues may often be difficult to elaborate, two broad principles can be identified (Economic Council of Canada, 1990). First, the municipal level of government should probably have the most extensive ongoing and direct relationship with LDOs, and the federal level the least. This principle is based upon the view that the involvement of government in the operation of local development activities should be less extensive, the farther removed the level of government concerned is from the community level. Obviously, however, the state/provincial level and the federal level (through the former) are

able to contribute financial resources. Further, the intermediate level often has a role to play in coordinating the direction of specific local strategies that occur within a given region. Second, the mechanisms of support need to be as free of bureaucratic involvement as possible. On the one hand, this means limiting the frequency of reporting, and ensuring the simplicity of reporting requirements. On the other hand, it also implies that guidelines about how funds are spent should be broad and flexible.

**Structure vs. Initiatives.** Is it better to develop structures or mechanisms within the community that permit it to determine and to pursue its own strategies, or to establish specific initiatives or projects designed to actively enhance the community's level of economic development? Each of these alternatives is a necessary but not sufficient element of local development; each must be addressed. While communities undertaking local development for the first time are often anxious to launch several initiatives and thereby to establish a track record for themselves, there is a strong consensus among students of the field that appropriate structures must be developed and put in place before any specific initiatives can be successful. The justification for this view lies in the very nature of the local development process: it is not fundamentally an economic phenomenon; rather, it is an institution-building process involving social, psychological, cultural and political components. While economic growth and development may be one tangible outcome of local development, a purely economic approach will generally not yield satisfactory results. Indeed, a major problem with many existing government programs that are used to assist local development efforts is that they tend to emphasize specific initiatives without addressing the structures or the non-economic aspects.

Appropriate Structures or Mechanisms. What is the proper structure or mechanism upon which communities should base their local development efforts? There is no easy answer to this question as the appropriate body can assume a wide variety of specific shapes and sizes. Generically, such a community institution may be referred to as a local development organization (LDO)<sup>1</sup>; most often, it takes the form of a legally incorporated not-for-profit organization. A LDO fulfills a number of important functions. First, it generally becomes the focal point of a community, and is instrumental in enabling the latter to develop a sense of identity and purpose; it also serves to bring together members of the local community and to permit them to utilize their specific skills or knowledge within an organized framework in order to promote social and economic development. As noted, the efforts of a LDO need not necessarily be limited to economic pursuits; the development of the economic base through the growth of capital can serve as an instrument to achieve other goals.

Second, a LDO often becomes the community's principal forum for identifying problems and priorities, for developing plans and strategies, for debating alternatives. In order to successfully fulfil this function an LDO must be representative of the interests of the community; in order to be representative the LDO must originate from within the community, not be imposed by external agents.

Third, LDOs generally launch their own development initiatives; through their programs and projects, and through their

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<sup>1</sup> Some writers (e.g., Perry, 1987) use the term community development corporation (CDC) synonymously; for others, including the present author, a CDC refers to a specific for-profit venture initiated by a LDO.

own commercial ventures (CDCs), LDOs seek to create jobs, to improve the performance of local firms, and to stimulate entrepreneurship (Lamontagne, 1989). Their involvement in commercial ventures can serve the dual purposes of generating funds for the achievement of social and economic goals, and of increasing the prospects for self-sufficiency. Financial survival is indeed one of the most consuming preoccupations for LDOs and, although some of them can benefit from their profitable commercial divisions, many more continue to need public assistance in order to exist. The available evidence indicates that, for many LDOs, financial self-sufficiency is not a realistic short-term goal.

Before leaving the topic of appropriate structures underlying local development efforts, a few words must be added concerning the potential role of universities and other educational institutions. In certain isolated regions local educational institutions have become the focal point of social and economic development efforts. Sometimes in conjunction with LDOs, sometimes in the absence of the latter, these institutions have stimulated a sense of local identity and culture, animated debates on community needs and priorities, and have furnished both expertise and, in some cases, modest financial assistance; they have also served as role models for local enterprises. An educational institution has the capacity to advise, instruct, support, invent, import ideas and technologies, promote the development of ideas and technologies from within the region, facilitate contacts between specialists and local businesses, and develop human resources. A particularly striking example of the role of educational institutions in a local development context was the establishment at the end of the 1960s of the University of Quebec system, where five of the six constituent branch campuses were established outside of the Montreal metropolis, explicitly for

the purpose of promoting the social and economic development of the province's non-metropolitan areas.

**Local Development Initiatives.** Once an underlying local development structure has been established, what types of initiatives (projects, programs) should be undertaken? Once again, the response to this question is rather complex; a wide variety of specific approaches have been implemented with success. A recently completed analysis of local development by the Economic Council of Canada<sup>2</sup> (1990) identified two major ways in which local development initiatives have contributed to the creation and the promotion of economic and social development in local communities: 1) the enhancement or expansion of local resources; and 2) facilitating the response to market opportunities. The former initiatives may be considered as addressing the "supply side", while the latter address the "demand side".<sup>3</sup>

**Enhancing Local Resources.** Three classes of activity have been shown to have the potential to produce a supply side impact. First, certain local development initiatives have been successful at

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<sup>2</sup> The author was a member of the advisory committee for this major three-year study. Certain of the following sections of the present paper draw upon the research conducted during this project.

<sup>3</sup> More detailed information concerning the points briefly summarized in the following paragraphs may be found in a series of 24 cases studies conducted by the Economic Council of Canada and published as the "Local Development Paper Series". These documents are available from the Publications Division, Economic Council of Canada, Ottawa, Ontario, K1P 5V6.

promoting the utilization of idle human and physical resources. The creation of jobs for the unemployed residents of the community has been one major result of such initiatives; in certain cases this has been combined with programs focusing upon occupational adjustment: training designed to impart specific skills, or the teaching of general skills and work habits designed to bring the hard-core unemployed onto the job market at a low cost. In other, less frequent, instances, activities have involved idle physical or natural resources. For example, abandoned factories have been recycled, small woodlots have been regrouped in order to achieve economies of scale, and idle farmland has been reactivated in order to take advantage of new agricultural opportunities.

Second, certain initiatives have sought to expand the resource base of the community. Three types of activities have been involved: the generation of new infrastructure, both physical and social (e.g., new institutions such as LDOs themselves); the encouragement of direct business investment; and the expansion of the supply of financial capital available to the community. As the latter is by far the most common approach it warrants special attention. The expansion of financial capital can take the form of reducing the cost of financial intermediation, as in the case of community loan funds which make short-term, small-scale loans (usually of less than \$50,000) at lower than market rates to community-generated initiatives; counselling and money management services to borrowers are also often provided. In addition, certain communities have been able to pool government funds and local capital in order to provide loans to local businesses and to help them to gain access to other sources of capital that would be otherwise out of reach (leveraging). One of the explicit goals of the financial capital approach is the stimulation of local entrepreneur

ship by helping to remove one of the major external constraints to the emergence of the latter (Coffey and Polèse, 1984; 1985).

Third, certain initiatives have sought to improve the productivity of local factors and, thus, to enhance the capacity to compete in external markets. As mentioned above, training and development programs have been able to increase labor productivity. Other productivity gains have been achieved through the adoption of better management techniques and of new technology. Productivity in local development organizations (LDOs) or community development corporations (CDCs) themselves can also be indirectly improved through cost reduction, for example by using volunteer (unpaid) labor inputs -- volunteer board of directors, volunteer staffing.

**Responding to Market Opportunities.** On the demand side, two types of initiatives may enable local capacities to better respond to the opportunities presented by regional, national and international markets. First, LDOs have often specifically sought to aid local firms and local groups to acquire better information on rapidly changing market conditions and market opportunities (both internal and external), product and process innovations, technologies, and funding sources. This may be referred to as an information brokerage function, and involves accessing, extracting, sorting, and transferring specific information relevant to the needs of a specific community, a specific firm, or a specific LDO or CDC.

Second, after identifying business opportunities available in the local area, community groups or LDOs have frequently invested in for-profit direct business ventures -- CDCs. In rural areas, CDCs have been involved in fish processing, forestry, housing, agricultural biotechnology, tourism, and transport (OECD, 1987). The typical CDC has much in common with a privately

owned firm: it plans and implements investment strategies, performs both strategic planning and daily management tasks, determines production and employment levels, and seeks to remain competitive by introducing new techniques and technologies. The objective of financial self-sufficiency is shared by most CDCs involved in profit-making activities; in addition, many seek to earn revenues for the parent LDO, enabling the latter to be more self-supporting and to increase its scope of activities. Further, CDCs can also act as an economic lever for the community, inducing investment by the private sector.

**Government Financial Assistance.** As noted above, in most instances some degree of government financial assistance is required to help initiate local development efforts in economically disadvantaged communities, at least in the short-term. What, then, should government seek to accomplish?; and what is (are) the appropriate target(s) for this assistance: municipal government itself?, local businesses?, would-be entrepreneurs?, community groups or associations?, LDOs or CDCs? Two observations may be made. First, at the risk of being repetitious, it must be emphasized that an appropriate structure needs to be in place before the specific programs and projects begin; a significant proportion of funding may need to be devoted to ensuring that such structures are both existent and operational.

Second, due to a lack of coordination, not only between the three levels of government but also between the specific departments or agencies at any given level, the targets of government assistance are varied. For example, certain departments have a mandate to provide assistance directly to established businesses, others to assist individuals to raise their skill levels, and others still to provide local government with physical infrastructure. The

channelling of these resources through one coordinating body, ideally an LDO, would constitute a major improvement.

In the view of the Economic Council of Canada (1990), two general areas of activity should be eligible to receive government funding: capacity-building and direct commercial activity by LDOs. Capacity-building entails the creation of a human resource and information infrastructure that is capable of promoting development, sustaining current economic activity and enhancing prospects for future growth; this involves the direct support of structure-building (LDOs), of human resource development, and of the establishment of information networks (e.g., business consulting and counselling; information on sources of financing). This approach is consistent with desire of local communities to take charge of their own development destinies. It is also compatible with the evolving direction of public policy in many countries towards an increased private sector role in economic development.

Two main sources of government financial support exist: funds designated by the various levels of government for the support of local development per se; and the various assistance programs already in place to support commercial ventures. The Economic Council of Canada (1990) suggests that explicit public funding for local development should be applied directly to capacity-building--the creation and enhancement of the human resource and information infrastructure required for development to occur, and the creation of appropriate structures and mechanisms. On the other hand, the many existing public and private sources of funding for business ventures may be used to ensure the short-term viability of direct business ventures by LDOs and by individuals and firms in the community. A potential problem does exist, however, in that projects sponsored by LDOs, as opposed to private ventures, are not always eligible for existing business assistance

programs. Further, it must be recognized that in many instances an LDO must first perform its information brokerage and/or leveraging functions in order to ensure that local community or private ventures will have the necessary access to existing funding sources.

In cases where government funding is provided it is necessary to strike a reasonable balance between local community control and responsible supervision of spending by the funding agency. Many LDOs complain that government financial assistance programs are too difficult to use because of too much red tape, program criteria that are too narrow, and excessively lengthy approval processes. Another complaint is that ground rules of government programs may require LDOs to accept development goals that are not their own and that are inconsistent with the community's aspirations. In many cases these criticisms may be true, but they do not alter the fact that the funding agency has a responsibility to ensure that its funds are used in accordance with sound accounting principles. Ideally, however, the agency should attempt to reduce reporting requirements to the bare minimum. Finally, in the best interests of both the funding agency and the LDO, it should be clear that financial assistance will not continue indefinitely but will be phased out in stages over a predetermined period.

**Selection of Communities.** Two criteria must underlie the choice of which communities should receive assistance from public funds: need and potential. Automatically excluded are those communities that are flourishing and those that have no prospects for improvement. While the measurement of need is relatively straightforward, the assessment of the development potential of a community is much more complex. For this reason, the Economic Council of Canada (1990) recommends that communities become involved in

the selection process at an early stage; the initial identification of development potential should come from the community and its LDO rather than from a funding agency. In the early stages of the process, government support can be used to help the community to begin its planning and assessment activities. And a prerequisite for further financial assistance should be a commitment of money and/or other resources by the community to the development effort.

Finally, let us note in passing that among some policymakers there is a debate over whether "disadvantaged" neighborhoods within large urban areas should be eligible for local development assistance. While urban communities are less likely to suffer from human resource and information infrastructure gaps, there is no denying the presence of development needs in many large urban centers where pockets of poverty, high unemployment, and inadequate social services are found.

**Evaluation.** The evaluation of local development efforts, i. e. the measurement of performance, is an issue distinct from that of financial reporting and the supervision of spending. The lack of an existing well defined evaluation framework creates serious problems for both LDOs and the funding agencies that support them; the LDOs cannot easily estimate the results achieved by different strategies in different situations, and the funding agencies cannot easily judge if their investments have been "effective" or "profitable". Indeed, evidence suggests that the inherent difficulty in evaluating local development efforts has been a major factor underlying the reluctance of some government agencies and departments to provide financial support in this area (Coffey and Polèse, 1985).

In the case of local development efforts, the classic process of evaluation --defining objectives, determining performance indicators, measurement and interpretation of results achieved-- is

fraught with complexity. In addition to the usual problems of distinguishing between incremental and redistributive effects, and identifying causality, there are other more specific difficulties: local development objectives are both social and economic in nature, making the assignment of dollar values to benefits and costs often unsuitable; appropriate social indicators are often difficult to identify; micro-area data are rarely available for the indicators desired; LDOs lack the necessary resources and expertise for undertaking an evaluation. Nevertheless, in spite of these limitations, simple but regular evaluations can and must be performed, especially as they will both enhance internal control and increase external support.

#### **POLICY OPTIONS FOR LOCAL DEVELOPMENT**

As the previous sections indicate, the local development approach can encompass a broad range of specific forms and activities. A community seeking to initiate local development efforts, and a government agency seeking to assist that community, will be faced by the necessity to make certain choices concerning the strategies that should be pursued and the manner in which resources should be allocated. Table 1 proposes a synthesis of the range of choices available; these are the broad policy options open both to communities and to government. The three options are not mutually exclusive; not only are they complementary but elements of each can be combined selectively.

As we move from option 1 (business funding) to option 3 (structure-building) the alternatives become more complex and progressively further removed from the criterion of immediate profitability; thus it becomes increasingly difficult to evaluate their performance. The first option is aimed at entrepreneurs (whether they be individuals or community organizations) and is designed to

supply them with the venture capital that the market may be reluctant to provide. Small business is the focal point of this option and potential profit-making capacity is the ultimate evaluation criterion. Yet many of these projects would, by definition, be rejected by the normal banking system due to the very high levels of risk and failure that they entail.

The second option addresses the more complex problem of access to information, broadly defined. In principle, it is aimed at the entire local population and at small business. The focus of this option is not upon supplying financial assistance but, rather, upon performing services, especially those related to the acquisition of knowledge and skills, and the diffusion of information concerning market opportunities and access to capital.

The third option, structure-building, is the most general and the most ambitious; it is also the most difficult to implement and to evaluate, particularly in the case where, in the absence of clearly defined goals and instruments, LDOs are given ambiguous mandates. The primary *raison d'être* of these organizations is in the area of community identity and motivation, and in preparing the way for specific programs and projects. It is by no means certain that LDOs are the optimal mechanism for acquiring and transmitting information or for coordinating business funding.

Initiating the process of local development not only involves each of these three policy options, but requires that they be addressed in a sequential manner. This sequence is, however, the reverse of the order established in Table 1, which reflects the capability and willingness of society to deal with the options. In other words, structure-building must precede information acquisition and dissemination which must, in turn, precede business

**TABLE 1  
THREE POLICY OPTIONS FOR LOCAL DEVELOPMENT**

	<b>OPTION 1: BUSINESS FUNDING</b>	<b>OPTION 2: INFORMATION</b>	<b>OPTION 3: STRUCTURE-BUILDING</b>
<b>TARGET GROUP</b>	Small Business*	Individuals/Small Business*	Communities/Community Institutions
<b>MAIN OBSTACLE</b>	Shortage of Capital	Lack of Knowledge and Skills; Lack of Information on Market Opportunities and Access to Capital	Inability to Develop Identity/Institital Structure/Entrepreneurial Spirit
<b>PRIORITIES</b>	1. Financing	1. Information and Training	1. Community Organization
	2. Information and Training	2. Community Organization	2. Information and Training
	3. Community Organization	3. Financing	3. Financing
<b>IMPLEMENTATION VEHICLES</b>	Loans, Grants, Community Loan Funds, etc.	Education and Training Programs; Information Networks and Infrastructure	LDOs and Other Community Institutions
<b>EVALUATION CRITERIA</b>	Profit-Making Potential	Internal Criteria Related to Quality of Services Provided	Internal Criteria Related to Community Goals and Long-Term Potential to Generate Development

\*Refers to both private sector ventures and for-profit activities sponsored by LDOs.  
Source: After Coffey and Pólese (1985)

funding. If this sequence is not followed, or if one or more stages are omitted, the results achieved will likely fall far short of those desired. Experience has shown, however, that far too often emphasis is immediately placed upon option 1, being the most tangible and familiar alternative in the case of both communities and governments.

### CONCLUSION

The community based approach to development is particularly important in that it fills a void in the current range of economic policies. National economic policy is increasingly restricted to matters of overall growth and efficiency; regional policy, where it still exists, is concerned with the macro-scale --the spatial distribution of economic well-being across a set of large regions (often sets of states or provinces; in some cases a single state or province; much less frequently a sub-state or sub-provincial area). Municipal economic policies are rather rare and, where they exist, tend to deal with highly specific projects such as industrial parks. The local development approach thus has an important contribution to make in proposing a complementary perspective.

Local development is both social and economic in nature. On the one hand, it is an institution-building process that involves sociological, psychological, cultural and political components. This is both the strength of the approach, in that it involves a way of life and a commitment to one's community, but also its greatest weakness: not only is it difficult to evaluate non-economic performance, but social objectives are not currently high on the list of government policy priorities. On the other hand, for economic development to occur, the conditions of, and barriers to, the growth of small business must be addressed. Economic precepts and principles are able to provide important guidelines for local

development efforts, even if certain elements of mainstream neo-classical economics must, by definition, be explicitly rejected. Thus, the local development approach must be based upon a close collaboration between the interests of the community and those of the private sector. It must be noted, however, that combining social and economic objectives within the same strategy can potentially cause difficulties; conflicts may occur between viewpoints concerned with promoting social objectives and those concerned with the bottom line of a financial statement.

In concluding its study of local development, the Economic Council of Canada (1990) proposes several relevant principles that should guide efforts in this area; these principles explicitly reflect the social and economic character of local development. First, communities should give high priority to structure-building and to capacity-building, in particular to human resource and information infrastructures that can support both public and private initiatives. Second, local development initiatives will have a greater impact if they attempt to respond to market opportunities more directly than has traditionally been the case; communities must attempt to promote a strong local private sector, particularly through the nurturing of entrepreneurs and new small businesses. And, third, communities should pursue a diversified array of projects in order to increase the stability and sustainability of the overall development effort.

Local development is not a panacea that may be applied indiscriminately to the economic difficulties of disadvantaged communities; this approach can begin to make a difference only in those circumstances where the social and economic potential for development already exists. Experience has shown that the local development approach can be successfully implemented in both urban and rural milieux. In the view of this author, however, it is

often a significantly greater challenge to stimulate local development in a rural framework due to a greater sense of individualism among the population and due to the inherent difficulty of creating a sense of community over relatively vast geographic zones.

Finally, it is also important to recognize that, alone, local development initiatives have not had a significant quantitative impact on job creation, income generation or social improvement. This is not surprising given the relatively small scale at which local development initiatives operate and the relatively inhospitable environments in which they are implemented. One can only speculate on whether more substantial results could be achieved by increasing the quantity and the scope of local development efforts.

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## DISCUSSION

Question: A couple of points, first of all your central model does not have any place in it for individuals to act as change agents. I'd like to ask you what you think about that? The second point is a dilemma that seems to exist in rural areas, which maybe part of that issue that you raised about the difficult nature of rural areas, where on the one hand there is often a missing ingredient in rural areas of some kind of over-arching organization to create those local development organizations. Yet, if you look outside for something to get them started, they never achieve the acceptance of the necessary individuals. The individuals do not recognize those as being legitimate they are not of their own making.

Coffey: The first point in terms of the role of the individual, I think there is obviously a role for the individual. In a lot of cases, community development organizations are stimulated by the particular drive, particular charisma of a given individual. I think the same role exists for the private sector activities as well. I see community development as being the cooperation among individuals, a lot of dynamic people working together for a common purpose. In terms of this problem of outside acceptance, I agree in part with you. If we look for example, at some of the case studies of local development efforts that have been done over the last several years, one finds a range of things that federal or state provincial government have imposed upon a local development organization. In that case I am in complete agreement that there is a problem because it was not something that grew from within the communities. In that case it is not going to work. I think that the point I was making is there has to be a seed within the community or a sense of purpose, a sense of community. And once that exists, in order for the seed to flourish, some sort of outside aid, financial or otherwise, is necessary. In this case the outside intervention is not really a "top down" sort of mechanism, but it's something that is being seen as complementary to the endogenous effort.

**Question:** Do you have any sense of the differences, or the roles of local governments and its variation in North America, as giving us any clues to those kinds of setting where there seems to be, because of the way which local governance takes place, more commonwealth and more economic development?

**Coffey:** Not really. I think in my experience, municipal governments and their policies for local economic development at a local level often is not the same thing as local developments as defined here. In a lot of cases local municipal level economic development efforts are concerned with boosterism: Our community is a wonderful place to live and establish your business; a lot of head hunting a lot of small rural communities sending trade delegations to Japan to lure a Toyota factory to town. Also, a lot of municipal policies are concerned with developing physical infrastructure such as industrial parks and more recently high technology parks where people are even talking about service activity parks. So, my experience is that the municipal level efforts have really not been very helpful in stimulating community grassroots development.

**Question:** Do you have any guidance for how local elected officials can more effectively do those things that have an impact on local economic development, in terms of getting away from boosterism?

**Coffey:** Well, I think so, as I said at the beginning, it's the municipal level of government which is most in direct contact with development efforts. One of the main problems is that their efforts have not really been coordinate with the community approach. I think there are a great many things that the municipal level of government can do to facilitate this emergence of community purpose, identity, and the whole set of subsequent for profit and not for profit types of activities that are going to result from that.

If I can just add another comment about the earlier question you asked regarding whether I noticed if there was a difference across countries in North America in terms of different

levels of involvement or remoteness of local government. I do not see that as being the critical dimension. For me what is much more important is the cultural factor. In my own experience, when I was in Nova Scotia working for ten years I had an experience with local development efforts on Cape Breton Island which is one of the least developed parts of Nova Scotia. To be an entrepreneur there is to make yourself suspect by other members of the community. There is a culture, a sense of individualism, that if you have to do something different, something that moves outside of the norms of the community, you are going to encounter a great deal of resistance. To contrast that with where I am now in Quebec, there is this region east of Montreal, which for quite a number of years now has been having the reputation for the most dynamic region for entrepreneurship in all of Canada. It's a cultural factor. Entrepreneurship is something that is culturally accepted. People who are entrepreneurs are put on a pedestal, they're virtually revered by the rest of the community. So locally, I think of these very amorphous cultural factors that can either put in place or remove very major constraints to the emergence of entrepreneurial activity.

