



**Stimulating Business at the Local Level:
The Participatory Appraisal of Competitive Advantage (PACA)
Approach to Local Economic Development
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Comment to the Document

“The Differential Competitiveness of Latin American Regions:
Opportunities and Constraints”

by Ann Markusen and Clélio Campolina Diniz

As Markusen and Campolina emphasize correctly, the 1980s and 1990s have seen the demise of traditional approaches to industrial, structural, and regional policy in Latin American countries. That approach is no longer pursued for a variety of reasons. One of the most important ones is the inability and unwillingness of central governments to conduct such activities – inability due to lack of funds, unwillingness due to the predominance of the neoliberal doctrine which, in the simplistic / fundamentalist variety, is opposed to active development-oriented policies. What has emerged is development policy vacuum, which has not been filled, as hoped by proponents of the neo-liberal view, with spontaneous response by market forces. This vacuum is making local responses more difficult, since they cannot count on external support. But ironically, it also encourages local responses – for the very same reason: because local stakeholders start to understand they can no longer wait and see that higher levels of governments address their problems. This is one of the reasons why local economic development initiatives are increasingly frequent in Latin American countries.¹

In this paper I will present a methodology which has been developed in Santa Catarina, Brazil, to kick-start local economic development activities. “Participatory Appraisal of Competitive Advantage” (PACA) combines competitiveness concepts with the principles of rapid / participatory appraisal in order to identify quickly implementable activities to stimulate a local economy. It is not aiming at grand strategies and big projects, but rather at practical approaches to remedying local market failures. This approach takes the restrictions and bottlenecks which Markusen and Campolina describe very well for granted and tries to formulate a practical approach to dealing with these problems. Markusen

and Campolina address mostly the question: What can national government do to stimulate local initiatives for economic growth? This paper complements their contribution by addressing the question: What can local government do itself – even given all the adverse conditions summarized by Markusen and Campolina?

1 Why “Participatory Appraisal of Competitive Advantage”?

Local economic development (LED) is at the same time a simple and a difficult task. It is simple because the necessary concepts and instruments are available and widely documented in the literature. There is nothing particularly magic or intrinsically complicated about it. It is difficult because its success is based on the active involvement of many actors, and the successful communication and coordination among them. Local economic development can only to a limited extent be delegated to salaried professionals. Therefore, motivation is a crucial issue. This is the first point of departure of PACA.

A successful local economic development initiative relies to a substantial extent on voluntary work – businesspeople, government executives, and representatives of civic associations and other organizations spending time in meetings and doing work which often is unpaid. Any LED initiative is therefore in need of visible, tangible results, and preferably quick results. Quick and tangible results motivate local actors to dedicate more of their time. Therefore, coming up with viable, practical, quickly implementable proposals is a crucial goal at the beginning of any LED initiative. This is the second point of departure of PACA, and it is why PACA includes a method to do a quick appraisal of a local economy, which should take no more than two weeks.

A successful local economic development initiative builds on the motivation of individuals to pursue some project as well as the willingness and ability of many individuals to formulate a shared vision which is guiding the projects. Also, many projects will only work if several individuals work together. It does not make sense to suggest projects which local actors do not find plausible, and it does not make sense to suggest projects which involve the collaboration of actors who cannot imagine to work with each other. Thus, the aim to come up with a diagnostic not only of economic potentials and challenges but also of a clear idea of the capacity, motivation, and cooperative spirit of key actors is the third point of departure of PACA.

1 See, for instance, Gabriel Aghón, Francisco Alburquerque and Patricia Cortés (2001), *Desarrollo económico local y descentralización en América Latina: un análisis comparativo*, Santiago: CEPAL/GTZ.

2 What does a PACA look like?

A PACA Exercise involves a team of between five and ten persons, most of them from the respective location, who conduct a rapid appraisal of the local economy: The PACA Team. The sequence of their activities is as follows. It starts with a preparatory phase where available data and information are assessed. Then there is a phase of intense research, involving the following activities:

- a hypotheses workshop, where the PACA Team clarifies its expectations,
- a kick-off workshop, where additional information is gathered from key stakeholders who are at the same time informed about the PACA Exercise,
- Mini-workshops, where a number of specific formats are applied to gather sector-specific information in a very efficient way,
- interviews with key companies, institutions and informers,
- a Results Workshop of the PACA Team to elaborate findings and proposals,
- a Presentation Event to present and discuss diagnostic and proposals with local stakeholders,
- a series of Way Forward Workshops to plan the details of the implementation of proposals.

This phase lasts no more than two weeks. After that, a first phase of implementation begins. A first series of PACA Appraisal Workshops should be organized after six months, to assess the progress and to define a new round of activities.

3 Why did the concept come about?

The concept presented in this paper initially was a response to an articulated demand for support of local economic development efforts. The demand came from municipal-level Chambers of Industry

Table 1: Sequence of a PACA Exercise

Preparation
Recruitment of PACA Team
Organization of workshops and interviews
↓
Kick-off Workshop (3 hours)
<ul style="list-style-type: none"> • Inform local stakeholders about the purpose of the PACA • Gather information on local economy
↓
PACA Fieldwork (1 – 2 weeks)
<ul style="list-style-type: none"> • Mini-workshops to gather information about specific sectors of the local economy • Interviews to get in-depth information
↓
Results Workshop of the PACA Team (1 Day)
<ul style="list-style-type: none"> • Elaborate diagnosis • Elaborate practical proposals
↓
PACA Presentation Event (3 hours)
<ul style="list-style-type: none"> • Present diagnosis and proposals to local stakeholders • Get feedback and suggestions for implementation
↓
Way Forward Workshops
Implementation

and Commerce (Associações Comerciais e Industriais, ACIs) in the state of Santa Catarina in the South of Brazil. Around 1997/98, some ACI directors and executives perceived that it was necessary to promote economic development at the local level – unemployment and a sense of crisis were increasing, and federal and state governments which had traditionally played a leading role in stimulating economic development were less and less active in this field. However, it was not at all clear how to promote economic development at the local level. The prevailing idea was to attract external investors – from other parts of the country or from abroad. But it was an open question how to do this, and whether other activities might be possible as well.

This was where Fundação Empreender (FE) came in. FE is an organization maintained by several ACIs in the Northeastern part of Santa Catarina; it emerged from a technical cooperation project between ACIs and the Chamber of Arts and Crafts for Munich and Upper Bavaria in Germany. Its main tasks are training of ACI professionals, other kinds of support for ACIs (e.g. moderation of annual planning exercises), and dissemination of methodologies to stimulate organization development in business associations in other regions of Santa Catarina and Brazil.

FE's brand label for PACA was “Projeto Marketing Municipal”. This label reflected the paradigm which usually prevailed in the places where practical work was conducted – local economic development meant projecting the place elsewhere to attract firms. The label facilitated an easy connotation for local actors, unlike other possible labels like “Promoting local economic development” or even PACA itself – the latter are not only somewhat clumsy but it is also unpredictable what local actors will connotate. However, it is essential to emphasize one point: One of the main purposes of PACA is to stimulate a learning process among local actors that economic promotion involves more than trying to attract firms, and maybe even that attracting external investors at the moment is a remote possibility.¹

4 Why would you do PACA?

The purpose of PACA is to come up with a diagnosis of competitive advantages and disadvantages of a given locality and proposals for practical activities within one to two weeks, based on the work of a team consisting of two one or three two external consultants who are supposed to be accompanied by and a number of local actors. This proposal is much less audacious than it may appear. Our experience so far has shown that it is perfectly possible to come up with a reasonably reliable analysis of local conditions in such a short time, provided that methodologies based on the participatory appraisal and

1 The first PACA exercises have been conducted in five municipalities Santa Catarina, Brazil. In the first semester of 2003, further exercises are starting in El Salvador, the Dominican Republic, Nicaragua, Bolivia and Brazil. Apart from Latin American countries, PACAs have been conducted in South Africa, Serbia, Sri Lanka, Thailand, and Indonesia.

the participatory planning schools of thought, combined with concepts to analyze determinants of competitiveness, are competently and consistently used.

PACA is more than just a recipe for how to have two exciting weeks. Underlying is a vision on how to do local economic development, including SME support and employment promotion. The key propositions of this vision are:

- Successful local economic development is based on collective action, and involves a partnership between the public sector, the private sector, and interested parts of civil society. It is not an activity to be pursued exclusively by the public sector.
- It is important to combine bottom-up and top-down approaches. PACA avoids focusing one of these approaches exclusively. But it has a clear bias. It is based on the conviction that bottom-up is extremely important, and will often have to be the prevalent pattern. The top-down element often comes in through some external agent who is persuading local actors to conduct a PACA.
- It is an approach which combines supply- and demand-driven activities. The period when we developed PACA was also a period when the international donor committee formulated the Business Development Services (BDS) approach, which tends to be one-sidedly demand-driven. Like BDS, PACA puts a lot of emphasis on effectiveness, significance, and financial sustainability. But it acknowledges cost recovery as that what it is, namely a proxy for effectiveness, not a goal on its own. One key objective of PACA is to understand market failures (barriers to entry, information failures) and government-created barriers to business in order to propose practical activities which make markets work better.

Implicit in PACA is a distancing both from the traditional and the currently fashionable approach to development, in particular promotion of economic development. The traditional approach – not just in development cooperation, but also, interestingly, in fields such as corporate R&D – was supply driven. In R&D, the idea was that you needed brilliant science which would automatically spill-over into brilliant technology which would lay the grounds for hugely successful products. In development cooperation, the idea was that you had to build up the necessary structures and that development would start, hopefully, once the building blocks – human resources and institutions – were there. Today, the perspective tends to be the other way around: things have to be demand-driven. Approaches which try to anticipate or to create demand tend to be frowned upon.

PACA suggests that there may be a virtuous circle between demand and supply. The first diagnostic will indicate a variety of market failures and obvious opportunities for businesses and business promotion. With the completion of the first diagnostic, various local actors will start to implement, sometimes jointly, practical activities. In doing so, they will probably notice missing elements, such as inadequate supply of training offers or a mismatch between available financial resources and demand. They may decide to create that supply, and when they do so, it may appear pretty much like

conventional capacity building activities – except that this time it is the outcome of the clearly defined demand (as opposed to “needs”), and those who conduct the activity know exactly what the purpose is. Supply-driven capacity building is a slow, cumbersome process – few people voluntarily do it if there is no clear goal except the abstract notion that this specific capacity may fit into something somewhere sometime and may be crucial for development. Demand-driven capacity building can build on a strong motivation, since that capacity is necessary to solve a problem right here, right now.

5 Why use PACA instead of another approach?

Implicit in PACA is a critique against other approaches to LED. One of them is strategic planning at the local level.² But what sense does it make to gather an enormous amount of data, come up with an “objective” analysis of the local situation, and suggest a series of initiatives based on “international best practice” if local actors do not believe in the possibility of action, or if they have no experience in LED activities, or if local organizations are weak, or if they are fragmented? Strategic planning usually is conceived as a comprehensive effort which demands enormous resources and takes a lot of time. It also does not give much latitude for learning-by-doing in implementation. Strategic planning is a nice thing for government officials who dislike leaving their office, who like to subcontract work, and who are measured by input indicators and not by outcome. If a community is doing local economic development, it may after some time decide that it would be useful to think more strategically, and to have a strategic plan. But in this case, strategic planning is an outcome of a LED initiative, not the start.

PACA tries not only to analyze the economic potential, but also the potential for collective action. It was developed in a setting where organizational weakness and lack of interaction between institutions are commonplace. The explicit aim of concrete applications of PACA was therefore to identify possible points of entry to collaboration and collective action in order to create positive, encouraging experiences and thus initiate a paradigm change among local actors. Therefore the emphasis on short-term effects – this is, in our view, the most promising way to give credibility to such an effort among local actors, especially firms which often have a very short-term orientation (like, for instance, six months as the maximum period allowed as a payback-period in investments). As firms and their associations are key actors in this work, taking their usual time-frame into account is crucial. Another consideration has to do with the observation that it is experience-based learning which tends to render the most sustained effects – preaching the best practice of local economic promotion seems much less

2 See, for instance, The World Bank, Urban Development Division: Local Economic Development. LED Quick Reference, Washington, October 2001: “Good practice indicates that local economic development should always begin with the formulation of a strategy” (p. 3). It is also instructive of the orthodox approach to LED that the standard textbook on LED is called “Planning Local Economic Development. Theory and Practice” (Blakely, E. J., & Bradshaw, T. K., 2002. Thousand Oaks etc.: Sage [Third Edition]).

promising than promoting projects which initially may appear timid and not ambitious but which initiate a learning process, and over time a change in paradigm.

PACA is also different from the usual approach pursued by consultancy firms. Their primary objective is not to help the client help himself, but to create more demand for their consultancy services.³ PACA emphasizes the need to use the PACA Exercise to transfer skills to local actors and to reduce their dependency on external support as much as possible. The only similarity between PACA and the usual consultant's approach is the use of Powerpoint for the final presentation, but even here the content is quite different: PACA deliberately tries not to be fancy, but rather to use concepts and a language which is easily comprehensible for the average stakeholder.

PACA is also clearly distinct from approaches to LED that focus at the creation of Local Economic Development Agencies (LEDAs).⁴ There is little use in proposing the creation of a LEDA as the main goal for LED. A LEDA is a means, not an end in itself. LEDAs exist in some places, but there they usually were the outcome of a long evolution of LED activities, and there are few cases where LEDAs are really the core actors in LED.

PACA is also different from approaches which put a lot of effort into motivation and consensus-building before doing any practical LED activities.⁵ PACA is based on the reasoning that success breeds success. It is sufficient to start working with a limited number of local stakeholders. If they succeed in implementing practical activities which make a difference to local businesses, this will have the strongest possible motivation effect.

Consensus-building is another story. Why do you need consensus to do LED? Successful business is built on diversity, not on consensus. Likewise, successful LED is diverse and stimulates diversity. It is crucial to have a basic consensus on the necessity of LED as such. But more often than not, trying to form a broad consensus on specific LED projects is a recipe for disaster, as stakeholders get stuck in endless disagreement. This is even worse at the outset of LED, when stakeholders do not yet know LED from their own experience and therefore don't really know what they are talking about – and thus heap conceptual and instrumental confusion on top of strategy disagreements.

3 Cf. Lewis Pinault, *Consulting Demons. Inside the Unscrupulous World of Global Corporate Consulting*. Harper Business, New York 2000.

4 See, for instance, ILO, UNOPS, EURADA & Cooperazione Italiana, *Local economic development agencies. International co-operation for human development, democratic economies and poverty reduction*, no date and location given.

5 See, for instance, Club du Sahel & OECD, *Managing the economy locally in Africa. ECOLOC handbook. Assessing local economies and their prospects. Volume 1. Summary*. Paris: Club du Sahel / OECD, 2001.

6 What are the results of PACA?

The purpose of a PACA Exercise is to come up with proposals for practical LED activities. In the course of Mini-workshops and interviews, local stakeholders usually come up with all sorts of suggestions, and the PACA Team can add its own ideas to this. The main point, however, is not to overwhelm local stakeholders with a multitude of proposals but rather to limit the number of proposals, and to cut the proposals down to those who fit with three criteria: Can it be done with local resources? Can it be done quickly? Can it achieve a visible result within, say, three months? Given the typical mindset and time-frame of businesses, only proposals which fit with these criteria have a good chance of successful implementation.

PACA is particularly appropriate for locations where local stakeholders have little experience with LED. In such locations, there are often opportunities for spectacular LED initiatives, for instance activating a passive cluster, creating a new business estate, starting a training & technology center for an important local industry, converting an abandoned industrial site into a business incubator. All these examples, however, require a well-developed competence in planning and implementation, a highly competent public administration, a well-organized private sector and close ties between public and private sector. You will frequently find that in a place where you do a PACA neither of these elements is present. This is why PACA emphasises practical, down-to-earth proposals, rather than fancy ideas.

Essentially, such proposals fit with one of the following criteria:

- They make local markets work
 - by removing barriers to entry
 - by resolving information problems
 - by amplifying supply or demand
- They remove bureaucratic obstacles to doing business
- They make improved use of locally available resources

Finally, it is important to mention yet another set of criteria: Good proposals are those which encourage learning among local stakeholders, which encourage them to do LED and which stimulate networking and collaboration between local actors. The purpose of PACA is not to prevent fancy LED projects forever, but rather to prevent LED efforts from collapsing early because local stakeholders are overwhelmed by the challenges of overly sophisticated projects. There is no reason why PACA should not lead, in the medium term, to the formulation of ambitious projects to develop a local economy. But why would you start with this, in particular if there are so many stupid obstacles standing in the way of businesses, obstacles which you can remove rather easily?