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Local Economic Development and Urban Management

Experiences of Porto Alegre, Brazil

By Mirjam Zaaijer

Local Economic Development & Urban Management; Experiences of Porto Alegre, Brazil

Mirjam Zaaijer

10

WORKING PAPERS



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Local Economic Development & Urban Management; Experiences of Porto Alegre, Brazil

by **Mirjam Zaaijer**

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No. 10

**Local Economic Development &
Urban Management; Experiences
of Porto Alegre, Brazil**

Mirjam Zaaijer

1995

Table of Contents

	Acknowledgements	1
1	Introduction	3
	1.1 Local Government and Economic Development	3
	1.2 Porto Alegre as a Case Study	4
	1.3 Porto Alegre's Context	5
2	Urban Management in Porto Alegre	9
	2.1 Political Context	9
	2.2 Administrative and Planning Context	10
	2.3 Citizen's Participation in Municipal Planning	13
	2.4 Municipal Finance	16
	2.5 Inter-governmental Relations	18
3	Local Economic Development	21
	3.1 Economic Framework	21
	3.2 The Secretariat of Production, Industry and Commerce (SMIC)	24
	3.3 SMIC's Economic Policy Perspectives	26
	3.4 Development Activities of SMIC	29
4	Review of Porto Alegre's Experience in Local Economic Development	35
	4.1 The Question of the Municipal Role in Economic Development	35
	4.2 Strong and Weak Points of Porto Alegre's Economic Development Approach	36
	4.3 Concluding Remarks	39
	References	41

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1

Introduction

1.1

Local Government and Economic Development

This working paper focuses on the subject of economic development policy and actions at local government level. It addresses the question of the need and opportunities for intervention by local authorities in the economy of their cities. Are local governments in a position to play a significant role in job and income generation for their citizens? Is there a role for them in influencing the local economy in order to secure the well-being of the citizens in the long run? Which conditions need to be fulfilled for successful intervention in this area? This paper aims to take up these questions for the case of Porto Alegre, Brazil.

The last decades have witnessed a significant increase in publications on municipal management in the developing countries. This is partly a corollary of the fact that municipalities all over the world are increasingly assuming a more developmental role. Many innovative experiences in dealing with problems in areas such as social policy, finance, land, infrastructure and environmental management are being documented, and provide useful examples for local administrations facing similar problems. An area which has received little attention so far is the potential role of local authorities in promoting economic development in their localities.

Though in the so-called industrialized countries local authorities increasingly become engaged in formulating economic policy, this is much less the case in developing countries. This can be partly attributed to the non-recognition of this field of action as a municipal concern, or at least to a much lesser degree than physical planning, zoning, or administration are. Often promoting economic development and employment generation are not even explicitly mentioned as municipal responsibilities.

However, a number of arguments have been brought forward by various authors to justify the need for more involvement of local authorities in economic development policy¹.

In the first place, local authorities throughout the developing world are faced with a narrow financial base, an increasing mismatch between the growth of the labour force and productive jobs, and soaring poverty rates within the area of their jurisdiction. These issues are felt locally, and thereby of concern to local authorities. In the second place, decentralization programmes are giving local governments more responsibilities, and more accountability for the welfare of their citizens, including sufficient jobs and income. In the third place, city governments are operating in a changing macroeconomic reality. The increasing mobility of capital and technology and ensuing globalization of economic activity result in more competition between cities for investments and jobs. Though this trend is operating at an (inter)national level, consequences in terms of an increase or decline in job numbers, are experienced locally.

For these reasons, it can be expected that the interest of local authorities in measures to promote local economic development will significantly expand. Of course the scope for local level policy will to a large extent be conditioned by economic reality, and no local authority is able to compensate for a disadvantaged position of its city in the broader market. However, local governments find it increasingly unsatisfactory to leave treatment of local economic problems to national level policy.

1.2

Porto Alegre as a Case Study

For a number of reasons the experiences of Porto Alegre have been selected as the focus of this working paper. In the first place, the municipality of Porto Alegre is far ahead of many other cities in developing countries in its efforts to strengthen the local economy. Moreover, the policy that is being developed contains a number of characteristics which may be valuable in a situation where no tradition of local economic development policy exists yet, as is the case in many cities. Local authorities and other institutions concerned with local prosperity may be encouraged to initiate similar activities.

Outstanding elements of Porto Alegre's approach are the following. Firstly, its incremental approach of building political commitment and capacity to act, is a sound cornerstone of the economic policy being developed. Secondly, the approach is based on strategic thinking on the city's future. Most of the time local actions to support economic activity are of an isolated and fragmented nature. The approach of Porto Alegre goes beyond that, and economic policy is being shaped with a view of the economic future of the city. Thirdly, stimulating local

1

In this working paper emphasis will be on practical experience, and less on theoretical considerations. For further reading in this area, see for instance Blakely (1989), Kingsley & Telgarski (1991) and Vallejo (1992).

economic development is not viewed as an exclusive local government concern, but as a matter of fostering alliances with various public and private parties.

Though the focus of this paper is on the role of local government in economic development, Porto Alegre's experiences in this area will be related to some key aspects of a broader urban management framework. This broadening of scope is in the first place to provide the reader with a necessary background against which to better understand the experiences described. Besides, it is felt that some other aspects of urban management are equally worth describing and disseminating to non-Portuguese speaking professionals. This applies for instance to the achievements in the area of citizens' participation in urban planning. Finally, it is felt that creating a conducive economic environment is not only a question of carrying out new projects and programmes. It is as much a question of creatively using existing planning and management tools with the explicit aim to generate jobs and income, to cope with present problems and future challenges, and is therefore intimately related to other municipal functions.

The remainder of this first chapter will provide a brief description of the regional context of Porto Alegre. The second chapter deals with broader urban management issues, such as the political, administrative and planning context, and municipal financial issues. The efforts to engage citizens in municipal planning will obtain special attention. Experiences in the area of economic development policy formulation and practice are explicitly taken up in the fourth chapter, embedded in a review of the broader economic situation of the city. A concluding chapter brings together the various issues dealt with and will draw some conclusions.

1.3

Porto Alegre's Context

Porto Alegre, with a population of nearly 1.3 million in 1993, is the capital of the southernmost state of Brazil, Rio Grande do Sul. This state has historically been the wealthiest of the country, with the highest human development indicators. Rio Grande do Sul has a population of approximately 9.1 million of which 76,6% is living in urban areas. More than 80% of the population descends from European immigrants who arrived from the 19th century onwards, and their hard work and aspirations have been mentioned as a major contributing factor to the state's relative prosperity. The state comprises of 427 autonomous municipalities.

The economic growth rate in Brazil is at present well below those of most Latin American countries. Whereas in the seventies the national economic growth rate was approximately 7% per year, in the eighties a period of stagnation and economic recession set in. Between 1980 and 1992 the real average economic growth rate dropped to 1.2% per year. The rate of the state Rio Grande do Sul was slightly above the national average, at 1.8%. In particular manufacturing continued to grow relatively faster than in the rest of the country.



Figure 1: Location of Porto Alegre in the state and country

Between 1970 and 1990 the industrial structure of the state changed gradually from agro-export and industrial import-substitution to more export led industry and the services sector. No doubt industry has been the most dynamic sector of the state economy. This was accompanied by a tendency of increasing openness of the state economy, in relation to new markets (rest of the country and exterior).

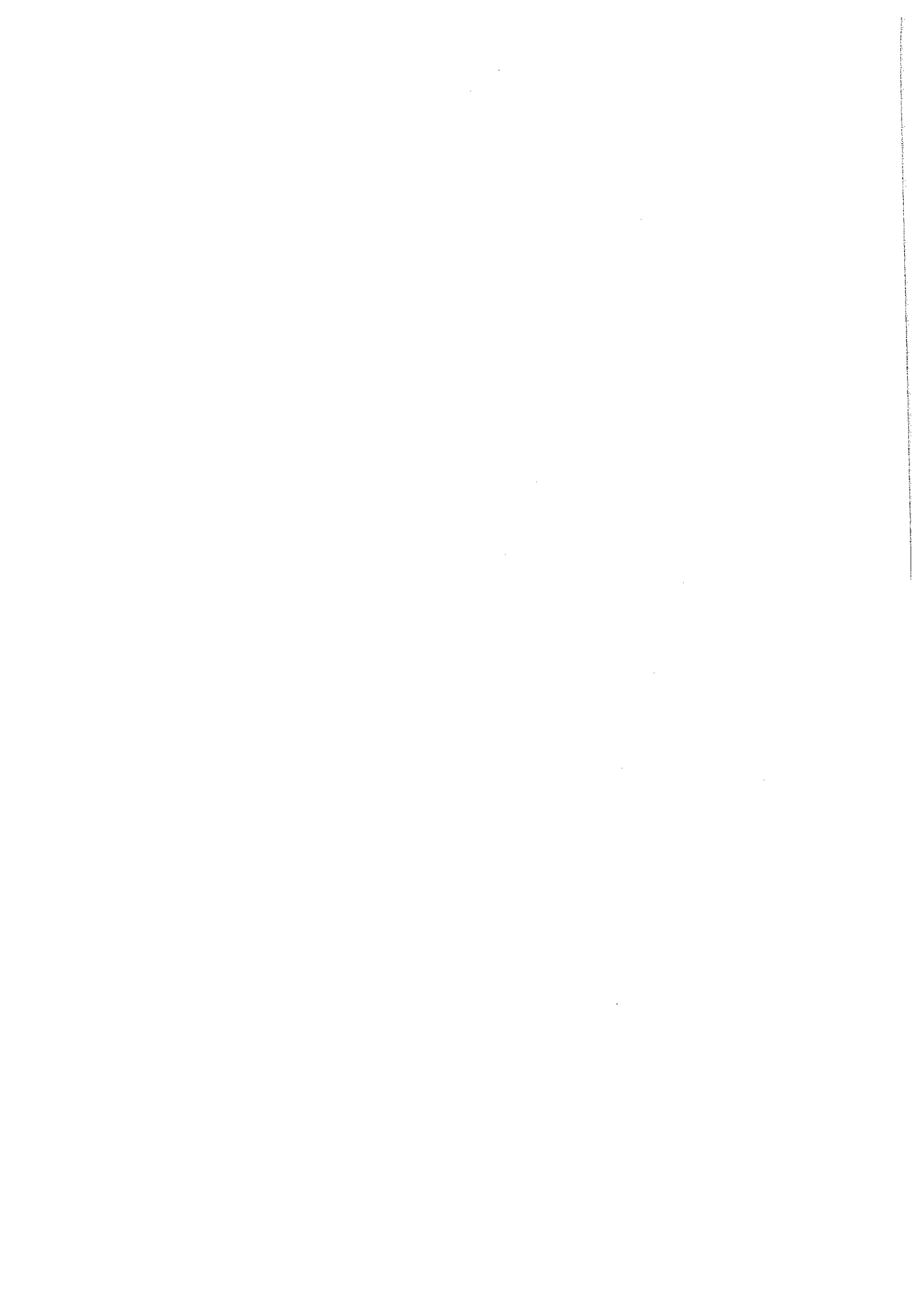
Porto Alegre is one of the 22 municipalities of the Porto Alegre Metropolitan Region (RMPA). In 1960 18.9% of the state population lived in the RMPA, in 1985 this number had increased to 31.5% and in 1992 to 32.9%. Occupying only 2.4 % of the state area, the RMPA is an industrial-commercial pole which increased its share of the state's value added from 35% in 1976 to 42% in 1990. The main reason for this is that

the metropolitan region has a more modern production structure than the rest of the state.

Of the overall value added of the RMPA, in 1991 approximately 35% was generated in the municipality of Porto Alegre. The annual regional product of Porto Alegre is US\$ 6,7 billion, accounting for 19.8% of the GRP of the state Rio Grande do Sul. Approximately one third of this is produced by the informal sector.

Porto Alegre is a relatively wealthy and well organized city. Infant mortality and illiteracy rates are the lowest of any city in Brazil, and 98% of its inhabitants have access to individual water and electricity connections. The per capita income in 1991 was US\$ 369 per month. On the other hand, the distribution of the city's income is rather unequal, though less than in other parts of Brazil. In 1990 8.6% of Porto Alegre's population received an income up till one minimum salary, and 27.9% up till two minimum salaries. On the other hand, 5.3% received more than 20 minimum salaries. The population living under the poverty line in Porto Alegre was estimated to be 22.5% in 1985². In view of the economic difficulties of the late eighties and early nineties, this situation has probably not improved much since then.

Poverty is in particular concentrated in the squatter areas, which are dotted over the city's map, especially in the outlying areas. However, also in more central areas extremely luxurious shopping centers for the rich are flanked by pockets of wooden shacks on the river banks.



2

Urban Management in Porto Alegre

In this chapter the broader urban management framework will be highlighted, in which economic development policy and practice in Porto Alegre are embedded. In particular the political context, municipal administration and planning, municipal finance and inter-governmental relations are addressed.

2.1

Political Context

In 1989 the Workers's Party (PT) won the municipal elections for the first time, and in 1992 for the second time. The PT was founded in the eighties and since then experienced a rapidly growing popularity throughout the country. PT's rule in the municipality has implied a marked shift away from policies of earlier military and populist administrations. Municipal operations became strongly inspired by its ideological leftist ideas. PT emerged from the labour movement, dissociating itself, however, from traditional communist ideas of the supremacy of the state, and putting more emphasis on strengthening civil society. To a considerable extent its popularity is due to its 'clean' and 'transparent' image, amidst a sea of corruption scandals at national and state level, which has led to an atmosphere of cynicism towards politics.

PT's slogan in the elections was "a new way to govern: democratic, transparent, and efficient". This has been translated into an increase in emphasis on community participation, and a more service oriented and less bureaucratic role of government. For instance, one of the major actions the new administration carried out when it came to power was the "democratization of municipal budgeting" in order to enhance its transparency and increase participation in its elaboration. The administration has made this "participatory budgeting" exercise into one of its political show-pieces (see 2.3).

2.2

Administrative and Planning Context

In Brazil urban management is very much a question of municipal government. Municipalities can have direct influence on local policy and practice; it is to a high degree up to them to decide what spheres they enter. The limits are mainly a matter of local will, resources, and management capacity. Policies and activities, as well as capacities at municipal level, vary widely throughout the country. (Batley, 1991a:1)

Municipal autonomy has an administrative, a financial, and a legal dimension. The municipality's legislative council and executive are directly elected; the municipality has the right to levy specific revenues and has freedom in the allocation of resources; it also has the right to make its own arrangements for the internal organization and the provision of services. However, in practice municipal autonomy is threatened by local financial weakness, and the lack of definition of functions of the state vis a vis municipal functions. The federal constitution has given states competence in all matters not denied to them and municipalities competence in the 'organization and supply of local public services'. However, where these services are not stipulated as exclusive municipal functions, federal and state governments can take them over or compete with municipalities to perform them. (Batley, 1991a:1)

The municipal government is elected every four years and consists of a mayor, the highest executive authority, and representatives of the electorate who form part of the legislative city council, controlling the actions of the mayor. The municipal government is composed of the mayoral cabinet, the vice-mayoral cabinet, and different advisory bodies and secretariats. The municipality of Porto Alegre consists of 13 secretariats (direct administration) and 3 municipal agencies (indirect administration). The latter are directly under the mayor. In addition, the municipality has a foundation and some enterprises³.

Table 1 provides an overview of the expenditures of the municipality, divided over the different municipal departments. The table shows the share of each department in the capital expenditures (investments). It also indicates the share of investments compared with total expenditures (which furthermore include staff salaries, material costs, contracted services, etc.).

In absolute terms, 1994 investments will amount to US\$ 85.8 million. Total expenditures will amount to US\$ 378.8 million. This means

3

Examples of municipal enterprises are transport, tourism, and automation

Table 1: Break-down of the 1994 budget over municipal organizations and type of expenditures.

Direct Administration	% of total investments	% of total expenditures
Municipal council	0.45	2.39
Mayoral cabinet	0.09	0.34
Attorney-general	0.06	0.26
Drainage division	5.41	2.5
Secretariats of:		
Resource mobilization	0.01	0.11
Sport and leisure	0.47	0.61
Culture	1.22	1.23
Municipal government	0.18	1.25
Administration	0.40	2.55
Finance	0.06	2.01
Works and highways	18.93	7.11
Education	4.42	13.14
Production, industry, commerce	2.19	1.25
Transport	3.51	1.84
Health	2.17	9.20
Planning	2.55	1.18
Environment	2.38	1.73
General charges including transfers to indirect administration	0.84	11.87
Sub-total	45.34	60.57
Indirect Administration		
Urban cleansing agency	1.23	6.88
Water and sewerage agency	38.41	25.61
Housing agency	14.65	5.17
Foundation for social education	0.37	1.77
Sub-total	54.66	39.43
Total	100	100

Source: Prestação de Contas 1993.

that overall, 22.7% of the budget is designated for capital investments. Personnel costs amount to 48.4% of the budget. In the table the three secretariats with highest total expenditures are highlighted. These are the secretariats of education, health, and the water and sewerage department. The expenditures on education and health, which are primarily on personnel, reflects the substantial responsibility of Brazilian municipalities for these sectors. Expenditures of the water and sewerage department are predominantly on capital investments.

In October 1993 the municipality employed 11,171 active staff. In addition, it carried financial responsibility for 3,765 inactive staff. Of the active staff, 321 were in so-called posts of confidence, which are politically appointed staff, who generally occupy all politically strategic positions such as heads of secretariats and units and advisors to the mayor.⁴

When the present administration took over in 1989, it faced a difficult situation, which is described by Batley (1991b:25) as follows: "Urban poverty was rapidly increasing but the municipality was in a ruinous financial state, unable to take any effective actions. In 1989 the municipality had to borrow from the state to pay staff salaries."

Three major measures were taken to improve municipal performance. The first one was an internal reorganization in order to create a better organized and politically directed administration. The crux of this reorganization was the integration of physical planning and budgeting within the Secretariat of Planning. The internal reorganization is still proceeding, based on continuous critical self-evaluations. The second measure initiated a process of decentralization and participatory planning, to direct public expenditures more towards the needs of poorer communities. The third measure aimed to improve the municipal financial basis. The latter two measures will be highlighted in subsequent sections.

The city's main instrument for urban planning, the Master Plan, is widely accused of being too little of a guide for urban development, and too much of a control instrument instead. The Municipal Committee for the Master Plan, set up by the previous administration to come up with proposals for reform will most likely soon be disbanded or reorganized, as its activities are limited to the approval of proposed modifications of the Master Plan. The second instrument of urban planning is the 'multi-year' expenditure plan, which was made for the first time for the period 1994-1997. This plan identifies broad guidelines and objectives for expenditures of the various secretariats in the years to come, but without any spatial perspective. The third instrument of urban planning is the yearly investment plan. This plan is developed with a strong involvement of the city's population. The development, execution and monitoring of the last

two plans are the responsibility of the Planning Cabinet (GAPLAN), which is linked to the Planning Secretariat, but functions directly under the mayor.

2.3

Citizen's Participation in Municipal Planning

The most visible manifestation of citizens' participation in municipal planning is the so-called Participative Budgeting process, which was introduced in 1990. This process facilitates popular participation in the discussion on and elaboration of the yearly investment plan. The aim of this process is, on the one hand, to better redistribute public income towards the more underprivileged areas of the city. On the other hand, it aims to make the relation between the government and civil society more democratic, and to get rid of clientelistic practices by having a more transparent demand making process.

Popular participation was facilitated by the new federal and state constitution of 1988, in which municipalities were required to draw up their own municipal law. The population was involved in the elaboration, through a consultative forum. The basis for the Participatory Budgeting exercise was laid down in the Organic Law, which states that: "...guarantees participation of the community, on the basis of regions of the municipality, in the phases of elaboration, definition and monitoring of the execution of the multi-year plan, the directions for budgeting and yearly budgeting."

In terms of participation the Participative Budgeting process can be considered successful. Whereas in 1990 335 people participated in the discussions, this number increased to 608 in 1991, 1,342 in 1992 and 3,774 in 1993. In the discussions on the budget for 1994 some 7,000 citizens participated.

The participative budgeting process

For this process, the Municipality has been divided in 16 "micro-regions", which function as the territorial bases for resource allocation. The operational procedures are as follows.

In April, in each micro-region a meeting is organized in which the municipality presents the accounts of the previous year, the investment plan of the present year, and the criteria for the elaboration of the investment plan for the next year. In May in each micro-region a meeting is organized in which the priorities for investments for the coming year in that area are discussed and decided upon by the population. These include both thematical priorities (for instance, pavement, tenure regularization, transport, education) and public works to be carried out. At the same time, the municipal administration presents its priorities for the next year as identified by the various secretariats and agencies.

In June in each micro-region the municipal administration presents rough figures for the revenues and expenditures of the coming year. The

community then presents, in sequence, their thematic priorities and desired public works to be carried out. These meetings also include the selection of 'councilors' in each micro-region, who will represent their area in the so-called Participative Budgeting Council. In addition, 'representatives' are selected to monitor and control the proposed investments in the respective regions and serve as link between micro-regional councilors and the micro-region's population.

In July the Participative Budgeting Council is installed, composed of 64 micro-regional representants plus some municipal and NGO representants. This is the forum which will weigh and decide upon the various demands. To do so, the following criteria for the distribution of resources are applied to each micro-region:

- lack of the service or infrastructure
- population in irregular settlements
- total population of the micro-region
- thematical priorities of the micro-region (the higher the selected themes of the region are in the combined priority list of all micro-regions, the heavier the weight)

To these criteria numbers and weights are attributed, which permits a grading of regions and investments. Based on this system a percentage of the investments will be allocated to each micro-region for the execution of priority public works and other development projects.

During August to December, the technical and financial viability of the proposals for works is discussed and analyzed. An important task is to weigh the demands of the communities against the so-called institutional demands of the municipality. These are the citywide strategic investments with a broader focus than a particular micro-region, which are brought forward by the different secretariats. In September the Participative Budgeting Council discusses the final proposal, which is subsequently sent to the municipal legislative council for approval. So far, most of the budgets prepared in this way have been adopted by the council without major changes.

In 1994, proposed investments represented 22.7% of the total expenditures of the municipality. The thematic priorities may change from year to year. Whereas in 1993 basic sanitation accounted for 46% of investments, pavement for 20.2% and tenure regularization and housing for 9.1%, for 1994 tenure regularization was the highest priority. This was likely to cause some operational problems. Though an extra demand for projects in the field of basic sanitation in a certain year may be partly solved by sub-contracting, this is not possible for regularization due to the legal aspects involved. In addition, the internal expertise to handle this complicated issue was also still quite limited.

The Participative Budgeting process is primarily coordinated by GAPLAN. The Committee for Community Relations (CRC) coordinates

the plenary meetings in the regions as well as the activities of the Participative Budgeting Council.

So far the Participative Budgeting process functions without any legal backing. During 1993 a polemic debate took place on the status of the process. Some city councilors were in favor of institutionalizing the process, and create a Municipal Planning and Budgeting Council, for which a law was to be prepared. They argued that formalization would better protect the continuity of the process against a change of administration. This view is contested by in particular the political municipal cadre. They want to maintain an informal status, since this would allow for more flexibility in what they see as a still ongoing process of refinement. Besides, they claim that institutionalization is not a sufficient guarantee for continuation.

Apart from some operational flaws of the Participative Budgeting process, a more fundamental weakness seems to be that a more global vision on the future development of the city is still missing. The Participative Budgeting process has a limited time span and scope (limited to micro-regions), resulting in a lack of continuity and a more strategic planning perspective. To overcome this limit the so-called Citizen's City project has been initiated.

The citizen's city project

The aim of this project, which took place during the year 1993 on a city-wide scale, was to promote popular participation in more strategic and long-term planning issues. A variety of activities took place, all addressing the question "what kind of city do we want in the future?".

This project consisted of, in the first place, a series of public seminars by national and international guests on a variety of urban development related themes. In the second place, throughout the year four working groups with representants from state and municipal government, NGO's, universities, private sector, labour unions, community groups, etc. discussed the main problems and prospects of the city, and came up with recommendations. The four working groups dealt with (a) urban development and reform; (b) transport; (c) economic development and (d) city finance.

The results of the discussions have been worked out in a set of guidelines and have been presented to the executive in a concluding seminar. Though the initiative in itself is very commendable as a first step towards a more comprehensive planning exercise, it is hard to say what will be the final outcome of the recommendations. Will the results of this initiative in the end be more of a symbolic and political nature, or is the municipality willing and able to translate recommendations effectively into action? That would require substantial work, as the guidelines are very broad and still need considerable elaboration, priorities, a time schedule and a budget. Obviously, apart from a popular consultation, this project has also served to check citizen's opinion on existing plans and ideas, introduce

those ideas, and obtain legitimization. In any case, ultimately this one-time exercise can only be a first step towards a more sustainable planning system.

In conclusion, the openness to participation in planning by citizens is considerable in Porto Alegre. The municipality is generating a steady stream of public debates, publications, posters, and shows. Though at times criticized for its "populistic" nature, this propaganda seems to have been quite successful in not only increasing the popularity of the administration, but also in involving the population in municipal affairs and fostering a wider sense of identification with the city. This is quite an achievement in a country with as much cynicism towards politics as Brazil.

Of course, there are limits to involving citizens in municipal affairs. This relates for instance to the representative value of the Citizen's City project. A discussion on some complex strategic planning issues, contrary to the Participative Budgeting process, hardly allows a discussion on equal terms between professionals and the average citizen. Care should also be taken that the energy of both staff and capable representatives of the population does not get dispersed in too many advisory committees and debates. In this sense, consolidation of the participative process may be equally, or even more important as expansion.

2.4

Municipal Finance

Table 2 provides an overview of the origin of municipal resources for the year 1992. Total revenues, amounting to about US\$ 240 million (excluding the indirect administration), were composed for 44% of own resources and around 50% of tax transfers from state and federal levels. Taxes in Brazil equal approximately 24% of the GDP. Of that, municipalities receive 3.9%, the federal government 14% and the states 6.9%. The municipalities' share used to be considerably less; about 2.5% under the previous Constitution.

When the present administration assumed power in 1989, the municipal financial basis was very weak. For instance, expenditures on personnel absorbed nearly 97 % of total receipts, and left little room for the necessary investments. The first intervention was therefore to improve the financial situation.

Indeed, the situation has improved considerably, as a consequence of both circumstances and its own efforts. First, the 1988 Constitution has considerably strengthened local powers of direct taxation. Furthermore, the constitutional changes also gave municipalities a higher share of the tax on circulation of goods. This was paralleled by own efforts to increase revenues of property tax, such as administrative changes, automation, improvement of the cadastre, publication of lists of debtors, reducing tax exemptions and better follow-up of debts. Whereas in 1990 the property tax constituted 22.4% of tax generation, in 1993 this became 41.4%. The last municipal action in this area was sending a law proposal in December 1993

Table 2: Distribution of municipal revenue resources, 1992*

1. Municipal taxes:	44.0%
IPTU (property tax)	16.9
ITBI (real estate transfer tax)	5.1
ISSQN (tax on service provision)	19.6
IVVC (sale of fuel)	1.8
Fees and charges*	0.6
2. Transfers	50.3%
FPM (federal: municipal participation fund)	5.1
ICMS (state: circulation of goods)	34.1
IPVA (state: car ownership)	5.6
Others	5.5
3. Other current revenues	3.6%
4. Capital revenues	2.1%
Sales of property	0.2
Capital transfers (borrowing)	0.3
Others	1.6
Total	100.0%

* exclusive of urban cleansing charges which are raised by the semi-autonomous urban cleansing department

Source: Secretaria de Fazenda, 1993.

to the municipal council to increase property tax by 20% per year for the 307 major vacant areas in Porto Alegre. The property tax is very important for this administration. It is in fact the only direct tax based on the value of property, and as such it is an effective instrument for redistributive purposes.

Despite these positive developments, the financial outlook for the municipality was still not too bright by the end of 1993. The share of municipal tax declined between 1991 and 1993. Budgeting was severely hampered by the high inflation, which in December 1993 amounted to 40% per month, and which quickly eroded tax revenues. At that time a quite controversial law was approved to index municipal taxes: tax on service provision every 15 days and property tax on a daily basis.

Municipalities in Brazil have very limited access to credit. Federal government resources are mostly allocated to projects in the poor Northern part of Brazil. Borrowing in the private market is not feasible, due to high

interest rates and lack of long-term finance. Access to state funds is also limited, not in the least because of the different political 'color' of the state government. Only a limited amount of external finance is obtained from the World Bank and Inter-American Development Bank, contributing to 6% of the 1993 budget only. In order to attract more external finance, in 1993 a new Secretariat of Resource Mobilization was established. A small team aims to coordinate between the various secretariats to identify and elaborate proposals for external funding, and to identify national and international external resources.

2.5 Inter-governmental Relations

Federal and state level

Regarding the role of federal government in urban development in Brazil, Batley (1991:5) states that this involvement is practically nil, and that since 1988 the major institutions of national policy direction and credit allocation (such as the National Housing Bank) have been abolished, without providing a policy framework, funding and a division of responsibilities within which local governments could operate. Equally, the support of the state is quite insignificant. Municipal staff characterizes the role of the state as powerless and inoperative, whereas hardly any financial assistance is available.

Exceptions to this experience are the Integrated Programme for Social Improvement (PIMES) and the Pro Guaiba programme. The first one is a state-wide programme funded jointly by the World Bank, the state, and state agencies through which actions in the field of basic sanitation, infrastructure, education, health and housing are carried out. The second one is an integrated environmental programme, coordinated by the state and financed by the Inter-American Development Bank⁵. The programme aims to reverse the pollution of the Guaiba river, floating through Porto Alegre and a variety of other municipalities. The component carried out in Porto Alegre, Guaiba Vive (Guaiba lives), has an integrated approach, involving different municipal secretariats. In the first stage, the municipality is responsible for 40% of the budget whereas the other 60% (US\$ 30 million) is channelled through the state.

Metropolitan region

Very few development activities are carried out within the context of the metropolitan region. This seems to be basically due to a political vacuum at the metropolitan level. The Porto Alegre metropolitan region

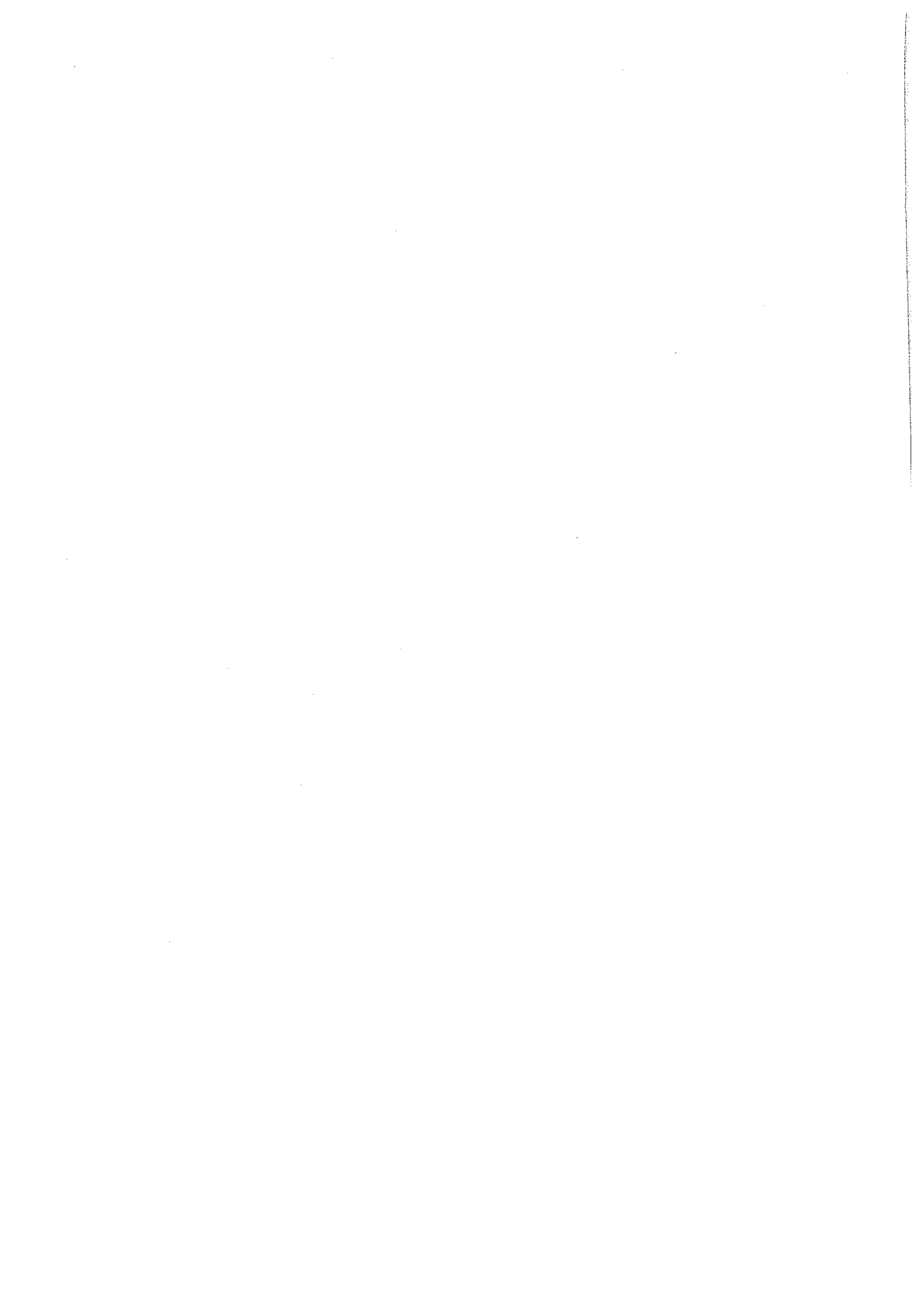
5

This was the only Brazilian programme presented at the UN environmental summit in Rio de Janeiro in 1993

(RMPA) is officially administrated by Metroplan, a state organization in the state secretary of Planning of Works. However, now Metroplan is considered to be ineffective in its planning task. As most of the state bodies, it is accused of a technocratic attitude and allowing little space for participation of the municipalities. It is taking a rather negative and pessimistic view of the future of the metropolitan area, and even announced the "collapse" of the metropolitan region in newspaper interviews. The municipality has a radically different view, and feels that existing problems should be attributed to a combination of national economic recession and very inadequate administration of the region.

The vacuum is to some extent filled by a body named GRAMPAL, an association of mayors. Recently, through GRAMPAL, the municipalities have taken many initiatives, with Porto Alegre in a lead role. However, the role of GRAMPAL is limited to being a platform for discussion and lobbying and it has little political weight and no material objectives. A notable weakness of the metropolitan region is that it is not institutionally defined, and that it is an entity without government and without staff. Therefore it is impossible to obtain finance for investments at the metropolitan level.

Among the municipal staff, the weakness of Metroplan is perceived as a serious problem. It is felt that many existing problems, for instance in the field of transport, environment, and economic development, would need to be tackled by definition in a metropolitan context.



3

Local Economic Development

It would go too far to conclude that the municipality has set out a clear policy or developed a strong institutional capacity in the area of local economic development. However, this chapter aims to explain how in a relatively short time-span economic development concerns were integrated and are now increasingly considered as a full-fledged municipal responsibility.

This chapter is structured into four parts. It provides an overview of (1) some key aspects of the economic framework of Porto Alegre, particularly its economic position and prospects; (2) the evolution of thinking in the administration regarding its role in economic policy; (3) the corresponding institutional development for economic development planning, and (4) present economic development actions carried out by the municipality.

3.1

Economic Framework

In the first chapter some data were provided on the economic performance of Porto Alegre, its metropolitan region and the state Rio Grande do Sul. This section concentrates therefore on the production structure of Porto Alegre and two economic trends which will have substantial influence on Porto Alegre's economic future. They are the recent changes in the city's production structure, and the integration of Brazil in the Mercosul economic union.

Table 3 shows that the relative shares of agriculture, industry, and services in the domestic income have remained quite stable over the last decades. Remarkable in this picture is the internal shift in the service sector. To explain this development and also clarify the composition of the category 'other services', some explanation will be given on a significant economic trend, which does not appear from the table.

Changing structure of the city economy

During the last decades, Porto Alegre has experienced a considerable shift in its economic profile. In the seventies it went through a

Table 3: Overview of the changes in the domestic income of Porto Alegre over the last decades.

Sectoral share	1960	1970	1980	1990
Agriculture	0.17	0.15	0.13	0.52
Industry	0.23	21.90	21.60	22.50
Services	76.80	78.00	78.30	77.00
<i>commerce</i>	28.7	27	18.1	16.5
<i>others</i>	48.1	51	60.2	60.5
Total	100%	100%	100%	100%

Source: Fundação de Economia e Estatística Siegfried Emanuel Heuser

process of relative de-industrialization, implying a relative loss of industrial employment compared with the metropolitan region and the state Rio Grande do Sul. Absolute employment in manufacturing stagnated between 1988 and 1990, while employment in commerce increased 9.4%, in commercial services 12.9%, and in non-commercial services 16.4%. A sizable share of manufacturing activity was lost to smaller, neighboring municipalities in the metropolitan region. These increasingly started to develop industrial estates and offer fiscal incentives to enterprises willing to settle there. Particularly competitive was Caixas, a heavy industry pole about 100 km. north of Porto Alegre.

An intensive debate has developed in Porto Alegre on this process of de-industrialization. On the one hand, this phenomenon is viewed as a threat to the city's economy, and some politicians demand that this phenomenon be countered by appropriate public policies. Their concern is partly related to the impact of this trend on the municipal tax income, because of a decline in the tax levied on the circulation of goods (see 2.4).

On the other hand, it is recognized that such a trend cannot be easily reversed and that de-industrialization of a metropolis like Porto Alegre is, at least partly, inevitable. Economic activity, and particularly manufacturing, is highly concentrated in the flat northern part of the city. Businesses established there face high land costs, higher labour costs, and congestion. Space for expansion is scarce. This has decreased the attractiveness of the city especially for large-scale manufacturing.

Similar evidence of decentralization of employment in manufacturing was found in other Latin American metropolises in the late eighties⁶. Illustrative are developments in Bogotá, Colombia, where the city's outer ring gained employment in manufacturing by 16% per year, while the center lost by 2% per year. However, the center continues to retain retail and service employment. For small manufacturing firms the

benefits from various externalities (access to local inputs) tend to compensate for high rent and congestion costs in the central area. Large firms, however, tend to be more export-oriented (from the region) and require more space for modern assembly-line production technology. For them, land and plant space, available at lower cost in outer areas, were more important than access to local markets, whereas these locations also offered better access to the road network.

It seems that Porto Alegre is influenced by a similar trend of changing location of investments, related to diseconomies of agglomeration, which affects localities all over. In line with the research results cited above, there are indications that the economy of Porto Alegre is increasingly obtaining a new profile, manifested by a relative 'tertiarization' of the economy. Though the tertiary sector has traditionally been considered as a residual sector with low productivity and lower incomes than in manufacturing, recent studies have shown that the sector is rapidly modernizing, induced by a process of industrial restructuring, which broadens demand for specialized, complementary services.

Conclusive studies on this process of industrial restructuring are not available for Porto Alegre. However, Alonso and Carrion (1992) point to the similarities with processes in the region of São Paulo. There, a change in the industrial structure is taking place, which is fed by more global changes, in particular the spread and, increasingly, incorporation of new technologies. It results in significant changes in productive processes, the organization of labour and the intersectoral relations, including complementary services, such as banking and financial services, consulting, automation and technology. Those services are emerging as the most dynamic segment in terms of growth and value added. The growth of intermediary services can partly be attributed to a process of tertiarization, which consists of the transfer to third parties of certain tasks, functions and stages of the production process, which previously used to be entirely executed by one enterprise.

Thus, instead of being worried about the process of de-industrialization, the key question seems to be whether the city's economy is sufficiently dynamic to guarantee economic growth in the tertiary sector which can offset the loss of its industrial activities. The same applies to the smaller manufacturing sector, which still considers the municipal area as an attractive location.

Mercosul economic integration

A second trend which may be an important development opportunity for Porto Alegre's economic future, is the integration of the

major markets of Latin America's Southern Cone, in the Mercosul. In order to reinforce their economies for the expected future global competition, Uruguay, Paraguay, Argentina, and Brazil established a free trade zone in 1991. The next step in the process is the total withdrawal of customs barriers from 1995 onwards. Porto Alegre, with its relatively close location to the country's boundaries with Argentina and Uruguay, is in a favorable position to the metropolises that should lead the Mercosul; Buenos Aires and São Paulo.

The economic integration gives rise to both opportunities and threats for the city's economy, and so far it is unclear which of the two will finally prevail. Threats are due to the proximity and similar profile of the Argentinean industry, in particular food processing. Strengths of Porto Alegre are the relative superiority of its industry in terms of innovations, technology and productivity. This may be a strong attraction factor to capture foreign investments searching for a position in the Mercosul market.

Porto Alegre's favorable productive environment in terms of innovations and technology development, is partly based on the relatively high level of infrastructure available. This includes assets such as transport and communication facilities, universities, research centres, and the relatively skilled manpower.

3.2

The Secretariat of Production, Industry and Commerce (SMIC)

The body responsible for local economic development in Porto Alegre is SMIC (Municipal Secretariat of Production, Industry and Commerce). SMIC combines an array of functions in the area of regulation, social policy and economic planning, divided over four units, as follows:

- inspection unit (80 staff)
- license unit (30 staff)
- food supply unit (80 staff)
- economic development unit (20 staff)⁷

Staff as well as resources are rather unequally divided over the units. This is partly a result of historical factors, as will be explained later in this section. Whereas the license unit absorbs most of the budget for automation, the economic development unit does not have access to any computer. Although the budget of SMIC has tripled since 1990 to 1.4% of the municipal budget, it is still one of the three smallest secretariats of the

7

plus 20 support staff for the entire secretariat

municipality. In the coming years it is likely to receive more money for investments.

The history of the secretariat is quite turbulent. Until recently it was little more than a counter for the provision of trade and business licenses. In the fifties a Division of Production and Food Supply was created within the municipality with the responsibility for maintaining a green belt around the city; an objective which was never achieved. In the seventies this body was transformed into a Secretariat of Agriculture, Industry and Commerce, which was entirely oriented to inspection and licensing of economic activity. In those days the secretariat had eight staff members only, and its operations were characterized by lengthy procedures and substantial corruption. After the municipal elections in 1989 a coalition of different leftist parties was formed and a communist party official took charge of SMIC, which was then still considered as an unimportant secretariat.

The present head of SMIC took charge in 1990. He played a lead part in reforming the role and responsibilities of SMIC within the municipality. Heading a small group of politically appointed staff members, he has promoted a shift from a bureaucratic secretariat with a very limited scope towards an organization with much more attention for the broader facilitation and coordination of economic activity. He directed an internal reform to rationalize staff and promote automation, in order to increase the effectiveness and efficiency of SMIC. As a result, the number of businesses reached increased considerably and the procedures for obtaining a license were speedened up dramatically from nine months to a couple of hours. Staff made redundant as a result of this operation was transferred to a newly established economic development unit.

Before 1989 there was little interest for local economic development issues as a municipal concern. When the PT assumed power, planning of urban development was an attribute of the Secretariat of Municipal Planning. However, with 90% of its staff being architects and physical planners, economic development was not a major interest of the secretariat, and activities were heavily oriented towards physical planning and the control of urban development.

In 1989 a debate started (and is still continuing) on the concept of urban planning. In particular the politically appointed staff felt that urban planning should be much broader than physical planning only, and that the economic future of the city should be one of the major concerns. It was clear that this idea would not be readily accepted by the staff of the Secretariat of Municipal Planning. New staff appointed to work on this new theme were likely to meet much resistance or would be coopted by established staff. Therefore, the decision was made to temporarily 'position' the economic development function in the smaller secretariat of SMIC, in order to let it 'ripen' and create a positive attitude in the municipality for the subject and avoid unnecessary tensions.

As a corollary of this strategy the objective of the newly created economic development unit in SMIC has so far primarily been to gain political space and recognition. It was felt that the municipal administration first had to become accepted as a legitimate actor in the area of economic development. Therefore, in the first years activities of the unit have concentrated on building up partnerships with other institutions and attaining consensus on strategies which should be followed. When assuming power, PT, due to its objectives of equity and redistribution, was not very popular among the private sector. A strong effort was needed to prove SMIC's interest and capacity in supporting local economic activity. On purpose activities have been mostly of a symbolic character, selecting concrete activities with short-term and visible results. An example of this is the creation of the IETEC (Technological Enterprise Incubator, see 3.4), whereby the objective was as much to achieve a sound collaboration with other agencies as to achieve direct economic impact. Also tackling the problem of the inner city hawkers, as a very visible problem, received a high priority.

The incremental approach is also needed to gain experience and build up capacity. Presently the economic development unit counts with only five professional staff. None of them has a background in formulating and implementing economic development policy, though more specialized professional support is actually sought. Finally, it should be mentioned that the Chamber of Commerce, often an active force in organizing local economic actors, is weak in Porto Alegre. This has certainly contributed to the active role of the municipality.

3.3 SMIC's Economic Policy Perspectives

In 1993 a fundamental internal discussion started within SMIC on its future role and actions, in relation to wider municipal functions. Though not yet formalized in policies or elaborated plans, by now a preliminary vision on what should be the new role of the municipality in stimulating local economic development, is shared by the key staff of SMIC. The need for a more 'facilitating' role of the municipality, in addition to merely providing business licenses, or developing food supply activities, is being increasingly accepted.

The objectives of SMIC as described by key staff are as follows:

- to adapt the local economy to structural economic developments, such as the relative de-industrialization and economic integration;
- to integrate the economic variable in municipal planning;
- to define the objectives of economic planning of the city and establish programming aspects.

These broad objectives are being elaborated in a more detailed picture. Figure 2 presents an overview of the results of the internal discussion on the objectives of the secretariat. This includes very broad

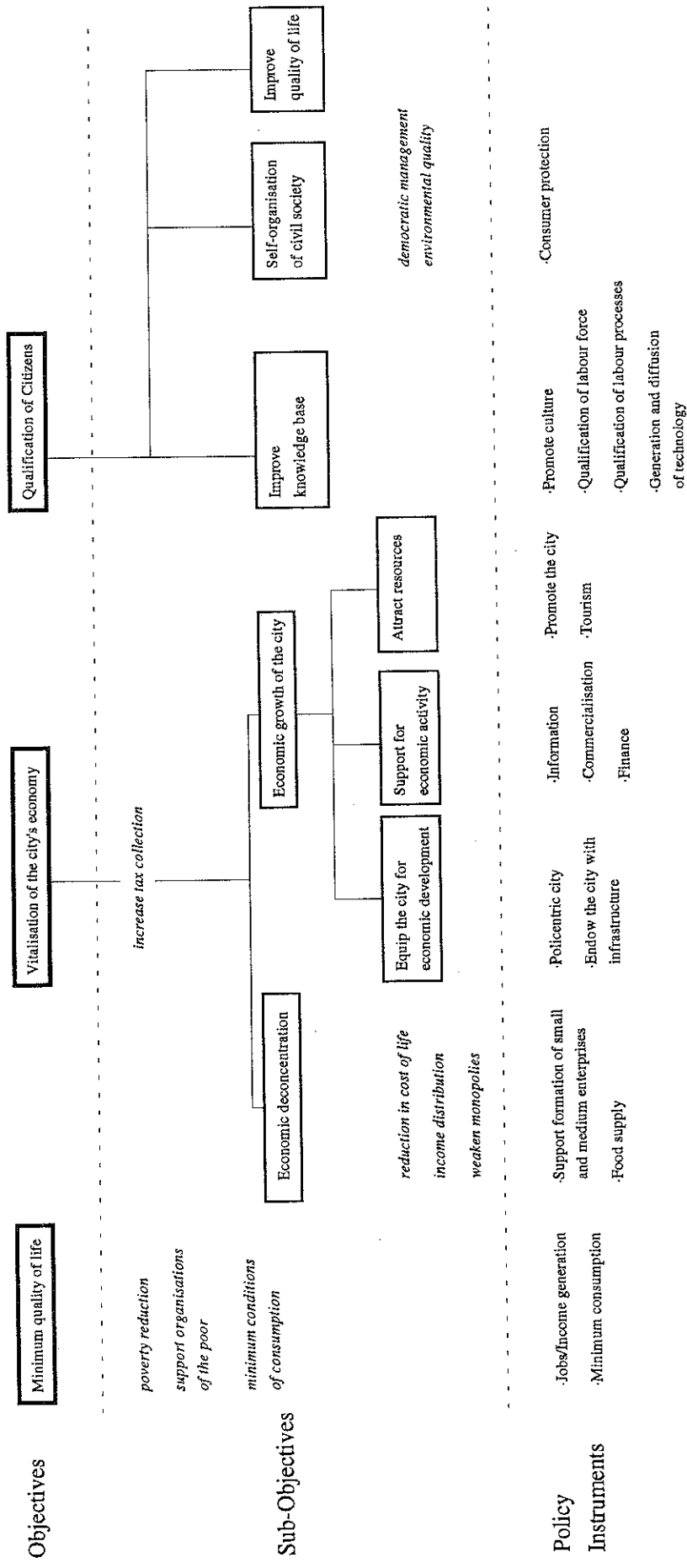


Figure 2. SMC's emerging policy objectives

objectives and more specific ones, including linkages with functions of other secretariats. The figure reflects the history of consumption and food market related activities, as well as the political orientation of the city government on democracy, participation and concern for disadvantaged groups. It also reflects the more recent objective of stimulating sustainable economic development by supporting (small) enterprise development and improving the broader productive environment.

The internal debate has been positively linked to the Citizen's City project and the theme of economic development was selected as one of the four themes on which working group discussed throughout 1993. This working group, presided by the head of the economic development unit of SMIC, has been used for feeding some of the ideas and proposals of SMIC into the debate in order to test their validity and acceptance. So though the above aggregate of objectives, ideas and ambitions has not yet been formalized in policy documents or plans, informally they have been accepted and legitimized by all parties represented in the discussions.

For instance, the final document of the Citizens City debate said that:

“... the recent economic evolution of Porto Alegre, similar to other metropolises, indicates as an alternative the development of activities connected to technology, in order to counter a possible tendency of economic delay. The municipality could have, in collaboration with other entities, a strong promotional role to consolidate Porto Alegre as national reference in this area, to stimulate the birth of new micro- and small enterprises, and as attraction pole for the establishment of already consolidated enterprises”.

The statement reflects the emphasis of the economic development unit on the generation and dissemination of technology. Other 'pilot activities' in its policy are information, commercialization and finance for small businesses, support for networks of small enterprises and improving skills of the labour force. Though not emerging clearly from figure 2, staff of SMIC feel that in order to achieve the various objectives, the municipality should initiate partnerships with various sectors of the civil society, such as the labour movement, private initiative, community movement, etc. Also new political relations will have to be adopted with other municipalities of the metropolitan region and state and federal power.

The choice of a strategy which targets smaller businesses is politically inspired, reflecting PT's roots in the Brazilian labour movement and a leftist political ideology emphasizing equity and local democracy. Initiatives such as promoting 'strategic collaboration' through networks of small enterprises is in line with the political concern for deconcentration of wealth and power, promotion of more democratic labour relations, and a lively interest for cooperativism as a reaction against large-scale enterprises and the oligopolistic nature of the production system in the city.

Moreover, municipal staff seem to be considerably inspired by the experience of the so-called Third Italy, a region in Italy where substantial wealth was created by many small and very productive enterprises⁸. These concentrations of small enterprises are famous for the intensive interrelations, forms of collaboration, flexibility and capability of adapting to market changes. Traditional production in large factories was replaced by 'production systems'; networks of interrelated small firms. A strong support factor has been a continuous discussion with public institutions and local government on the development directions of the region, and a strong role of the local and regional government in the stimulation of technological innovation, qualification of the labour force and stimulation of development of industrial districts.

3.4

Development Activities of SMIC

In this section the main development activities carried out so far by SMIC will be described. The list of activities clearly reflects the evolution in the development of SMIC. Many initiatives have come about in an ad-hoc manner. However, the majority of activities has a clear correspondence with its broad objectives.

Initiatives are a mixture of economic and social policy. Though not formally organized in programmes, broadly three types of activities can be discerned: (1) promotion of economic development; (2) poverty alleviation, and (3) food supply and rural productivity. The first two are carried out by the economic development unit, the third by the food supply unit.

Economic development

These activities broadly fall within the fields of land provision, infrastructure development, technology promotion, export promotion, commercialization, and economic revitalization.

Restinga Industrial Park

This initiative aims to develop 88 ha. for small enterprises and generate employment for local inhabitants. Restinga is a peripheral neighborhood which emerged as a resettlement site and is facing a high rate of unemployment.

The idea of an industrial park was first launched in the end of the seventies, a period of rapid economic growth and corresponding euphoria.

8

For further reading on this subject, see Pyke, F., Becattini, G. and Sengenberger, W. (eds.) (1990) and Goodman, E. and Bamford, J. (eds.) (1989)

The proposal at that time included very large plots and high infrastructural standards. Recently the old idea was taken up again, but this time a thorough study was made on its design and economic viability, and changes subsequently were introduced. Differences between the initial plan and the new project include for instance, a reduction of public spaces (roads, green areas) from 66.3% to 35.7%. As well, the original plot sizes of 14,000-18,000 m² were decreased considerably. The revised design appeared to be more realistic in view of the characteristics of the city's industrial structure. Of the 3,300 industries in Porto Alegre, only 12 occupy areas of approximately 14,000 m² and 95% occupy areas of no more than 1,500 m². Therefore 244 plots are created with an average size of 2,500 m². Costs will be recovered by sale of plots, which cost only one third of plots in the private land market.

The estate is planned to include a park, supporting services, banks, medical facilities and a vocational training center. SMIC expects that over 20,000 jobs will be generated for the inhabitants of Restinga. Whether this optimistic expectation will materialize, remains to be seen.

Porto Seco Transport Terminal

The construction of this new transport terminal is carried out in collaboration with private enterprises, and more than 40 transport enterprises have already settled down here.

Neighborhood Centres Project

This initiative is undertaken in cooperation with various other secretariats. Through selected public investments and planning interventions three emerging sub-centers in the city are strengthened in order to become poles of attraction for private investments. Interventions are in the area of road improvements, social facilities, commercial buildings, parks, housing, tenure regularization. The underlying aim is to create a policentric city to take away pressure from the city center, increase the efficient use of the city's infrastructure, deconcentrate production, and increase economic efficiency.

Trade Point

The Trade Point is meant to be a service center for the promotion of international trade, which is planned to take off mid-1994. The initiative was launched by a recently created Secretariat of Resource Mobilization. The service center would be one of a series of Trade Points which are promoted and financially supported by UNCTAD as part of their 'Commercial Efficiency Programme'. Similar centres are already operational in Campinas (Brasil), Cartagena (Colombia) and various North American and Asian countries.

A Trade Point is meant to be a sort of 'one-stop center' for prospective exporters, reducing transaction time and operational costs by the concentration of various services and information bases in one place. Trade Point provides (a) information about products, markets (various

international data-bases), commercial and product technology, consumer behavior, general economic tendencies, etc.; (b) training for local entrepreneurs and executives in the area of foreign trade, and (c) a variety of services needed for international business, such as banks, transport and insurance companies, customs, and federal and state taxation bodies.

The service center would be geared to servicing smaller enterprises. Its reach should be far beyond the metropolitan region. Though the municipality is the lead actor in this initiative, partners in this undertaking are the state secretariats of International Relations and Science and Technology, SEBRAE (federal agency for enterprise support), state federations of commercial associations and of industries, and the federal university. Though it is a public initiative, the centre should be organized as a private non-profit institution. The six staff members and infrastructure investments will be financed jointly by the participating institutions. Recurrent costs will be borne by payments for services provided.

Commission Pro-Technopolis

The commission is a permanent forum with representatives of universities, enterprise associations, labour unions, NGO's, etc., where the concept of Porto Alegre as a 'Technopolis' and possible supportive actions are discussed. The basic idea is to make Porto Alegre an industrial centre based on high technology and innovations, leaning heavily on the small-scale enterprise sector.

Technological Enterprise Incubator (IETEC)

This center was initiated in 1991. It aims to provide emerging businesses with space, infrastructure and a legal seat; technical and business assistance, and administrative support. Most businesses are engaged in informatics, electronics, and other high technology sectors. Though it is not the first centre in Brazil, it is the only one initiated by a local government, who finances the physical and administrative infrastructure. In a recent study it appeared to be the most successful of all centres in Brazil. Financial and functional collaboration exists with other entities such as the universities, state secretariat for Science and Technology, federal agency for enterprise support, business associations, and incidentally major private enterprises. At the moment ten enterprises are accommodated, which should become twenty in the near future.

Solidarity Network

The municipality aims to increase its support to networks of small businesses. A successful initiative has been the support to a group of textile producers in organizing a fair of their products in Uruguay and jointly procuring equipment for automatization in the field of design.

Urban poverty alleviation

Santo de Casa Project

A network of shops throughout the city sells the handicraft products of some 1500 low-income female homeworkers. SMIC pays the rent and salaries of three staff. Apart from increased income for the beneficiaries, the project aims to involve the home-workers in the management of the shops, thereby improving their social skills. A next step will be the provision of credit and organization of service cooperatives for bulk purchase of inputs.

Selective Garbage Collection

SMIC has provided support to establish three cooperatives for the recycling of solid waste. This dirty work used to be done by individuals, who were badly paid. The project is now administrated by the urban cleansing agency, which provides the cooperatives with a regular flow of selected garbage.

Support to Neighborhood Economic Activities

In collaboration with the municipal housing agency, SMIC supports small-scale enterprises identified by this enterprise in areas under the tenure regularization programme.

Food supply and rural productivity

The relative importance of these activities in terms of staff and resources allocated, can be explained by two historical factors.

The first rationale is that food prices in Porto Alegre are the highest in Brazil. Porto Alegre has more supermarkets and much less smaller retail outlets than any other city, which is due to the strongly oligopolistic nature of retail. Municipal actions aim to protect consumers, by increasing competition and quality, and indirectly, by forcing prices down. The second rationale is that Porto Alegre is the state capital with the highest percentage of rural area within the municipal jurisdiction (31% of the municipal area), although it is inhabited by less than 1% of the municipal population. Productivity in this rural area is low. So far the municipality has not produced a consistent policy for this area. A debate is going on whether the municipality should stimulate production in the rural zone. Advocates argue that the sector is fundamental for maintaining the quality of life of the city. In practice, many owners have already sold their land and started anew outside the municipal boundaries where land is much cheaper. Activities developed include the following:

Collective Food Purchase Programme

Since 1991 the municipality buys in bulk 25 basic products and sells these to organized community groups. The bulk purchase allows for cost reductions of 30 to 40%. It is estimated that in this way some 15,000 people are reached. The municipality supplies 18 staff members and covers some additional costs.

Supply Points Programme

In six neighborhoods the municipality facilitates the direct sale of food by producers associations. The dual objective is to decrease food prices and to support rural producers within the municipal boundaries.

4

Review of Porto Alegre's Experience in Local Economic Development

The preceding chapter provided an account of the efforts of the municipality of Porto Alegre in developing capacity for strengthening its local economy and developing operational activities to that end. This case study has been elaborated in order to illustrate the needs and opportunities for intervention by a local authority in a changing local economy.

4.1

The Question of the Municipal Role in Economic Development

In many countries, the scope for local government influencing the outcome of local economic development processes is seriously debated. This also happened in Porto Alegre. Municipal efforts in stimulating economic development encountered stiff opposition. Critics argue for instance that adopting the allegedly 'Western' idea of Porto Alegre as a Technopolis would be far from Brazilian reality. More fundamentally, some assert that local authorities should not be involved in economic planning and rather stick to their 'core tasks' of regulation and service provision to stimulate local economic activity. Only state and national government, they feel, can influence local economic development processes.

Of course, local action should be complementary to national and regional economic policy. It can be concluded from this report that Porto Alegre does not replace, or compete with higher level government economic policies. In reality in Brazil, and in many other countries, higher level policies are generally not focused on individual cities like Porto Alegre. In Porto Alegre the inactivity at federal and state levels appeared to be an important 'push' factors for local action. The report also aimed to illustrate that local economic development plans are best built up from detailed knowledge of the particular conditions of a city. The experience of Porto Alegre showed that local government may be in a favorable position because it has better access to information on local problems, needs, and resources.

One general conclusion that can be drawn from the experience of Porto Alegre is that local governments may have more opportunities than they think, for initiating activities aimed at promoting local business activity and employment opportunities. Moreover, they may even have a capacity to play a wider role in the promotion of economic growth. Though the ideas of SMIC still have to materialize in a proper policy, some interesting activities have been developed in a limited timespan by a small group of staff. The economic development unit counts with 20 staff, of whom only five are professionals. The entire SMIC has 1.4% of the municipal budget only.

Not enough time has passed to make a meaningful impact assessment of the initiatives carried out in Porto Alegre so far. Questions about the direct impact in terms of increased employment and income cannot yet be answered, and seem difficult to answer anyway. In a sense, all local economic development initiatives entail this difficulty of measuring their impact.

Assessing results is even more difficult when the objectives of local economic development are not only defined as the direct, short-term generation of jobs or income, but rather as a qualitative transformation of the economic environment. Or, in the words of Blakely (1989:72): "Local economic development is a process with a product: a process whereby an environment - physical/ regulatory/ attitudinal- is created that affects the economic products of more jobs and growth and vitality." The intangibility of (direct) benefits will most of the time require far-sighted managers or politicians to promote activities in this direction.

In the following section some specific characteristics of the municipal approach will be assessed.

4.2 Strong and Weak Points of Porto Alegre's Economic Development Approach

Strong points

An Emerging Strategic View of Economic Development

The municipality has gained awareness of the need to develop a coherent vision, and to integrate the rather fragmented economic development activities undertaken in the past. This requires a more strategic planning approach and goes beyond supporting business activity. It implies making arrangements for securing jobs and income also in the future, by stimulating developments with a broader impact on the local economy. This recognition is very timely since economic conditions in Porto Alegre seem to offer a number of opportunities for future success. The new international situation, the investments in Mercosul, the industrial park, the services and commerce that are already there, the universities, research centres, communication facilities, the qualified labour force, are some of the present

assets. However, future success depends a lot on how these competitive advantages are used and strengthened.

Coordinating Role

It is important that the municipality is not working in isolation. It establishes partnerships between various public and private agencies involved in local economic development, who so far have been working in a rather isolated way. The municipality has initiated a discussion on the economic development direction of the city, and broader, the Metropolitan Region. SMIC is increasingly becoming a more 'catalyst' actor, in the sense of bringing together other parties, and stimulating them to be active, instead of trying to do everything themselves. This coordination and development of institutional capacity outside the municipality seems to be a pragmatic approach in a situation of scarcity of resources, and allows for the attainment of more ambitious goals in the long run.

Private Sector Involvement

The strengthening of channels for participation of the private sector and the building of consensus is very important for the identification, promotion and achievement of paths of potentially successful economic activity. The debates in the working group on economic development in the Citizen's City project have been very valuable in this respect. Unfortunately this initiative was a one-time effort only, whereas the city is continuously changing. The creation of a Forum for Economic Development might be an instrument to keep the dialogue alive.

Regional Perspective

The municipality recognises that many economic processes relate to the entire metropolitan region and can best be tackled in that context. By definition the role of one local government in coping with regional phenomena can only be limited. In the absence of strong leadership and effective action at both the metropolitan and state level, the initiatives of Porto Alegre may create a more conducive climate for such a concern at the regional level.

Creativity

In the field of local economic development, very few standard recipes for action exist. More than any other area of municipal concern, policy and practice seems to be a case of trial en error, due to the heterogeneity of local social and economic conditions. Although the municipality has received considerable critique for its unorthodox practices, to a considerable extent it has been their creativity and courage, which fuelled the encouraging results achieved so far. In this sense, the experience of Porto Alegre may serve as a motivation for local governments who would like to be more active in local economic development, but feel demotivated by the lack of knowledge, funds, and personnel. This experience has shown that manpower and financial resources are not all that counts, but that with substantial creativity and commitment something valuable can be achieved.

Political Commitment

A very strong political commitment and enthusiasm for change to make urban management more efficient, transparent and democratic is apparent. This is particularly the case among the so-called politically appointed staff, who are appointed for one administrative term only. At the same time there are also inherent risks in this system, as will be explained below.

Weak points

Against the strong points, a number of limitations can be identified.

Need For Priority Setting

At the moment a large variety of activities are carried out by SMIC, from the formulation of economic policy to activities with a social orientation. Most existing initiatives in the area of economic development resemble more a collection of ad hoc pilot projects than an integrated programme based on a coherent strategy. This lack of focus may lead to the dispersion of energy. Setting of priorities is required.

Bridging the Gap between Activities and Ideas

A substantial discrepancy exists between the development activities in which most of the staff of SMIC are engaged (small, fragmented, consumer oriented activities) and emerging views and ideas (broad, innovative, ambitious) for the future. In fact, many of the present activities are a heritage of the past, and many of the staff still identify with that old image of SMIC. Bridging that gap is necessary.

Disparity between Political and Permanent Staff

This weakness is partly related to the disparity between the politically appointed staff and permanent staff. The former, who occupy most of the strategic positions, such as heads of secretariats and units, are appointed for one administrative term only. Changes initiated by politically appointed staff risk being nullified by a next administration, contributing to a lack of long-term perspective and lack of continuity in planning. In addition, bureaucrats on permanent contracts are mostly less interested to effect radical changes. In Porto Alegre at times the ideas of political staff seem to be too far ahead of those of the permanent staff, for instance in the field of popular participation or economic development. For the continuity of economic development initiatives, permanent staff should support the changes introduced.

Internal Institutional Arrangements

Though including the economic development function in SMIC may have been chosen to achieve a 'seedbed' effect, in the long run it may be less appropriate to lock away a function so important in a comparatively minor secretariat. This may lead to the danger of reduction of activities in isolated projects. Some of the actions required to stimulate economic

development are beyond the competence of SMIC, and relate to broader municipal planning. Although the increasing collaboration with other secretariats on a project by project basis is a positive step, a search for ways to put the economic development function in a more strategic position in the municipality, with a continuous connection with other secretariats, is required.

Sustainability of Activities

Being a 'facilitator' does not preclude direct local government action to generate jobs and income, in particular from a poverty alleviation perspective. The importance of activities such as Santo de Casa is evident. However, the concept presupposes that when the public sector gets involved in direct activities, these initiatives are, after initiation, as much as possible handed over to civic organizations or the private sector. Thus ensuring sustainability is required to liberate government from routine tasks and allow it to concentrate on its core tasks. Projects as Santo de Casa or Collective Food Purchase, with a substantial input of public funds and staff, offer scope for increasing their sustainability through privatization.

4.3 Concluding Remarks

Porto Alegre, and in particular SMIC, is still in the middle of a process of policy development and initial implementation. How this process will evolve is hard to predict at this point of time. The aspirations of key staff of SMIC are ambitious, in terms of future budget, staff levels and activities. The years to come will show whether SMIC has the capacity, and whether the results of their efforts justify the credit in the municipality to put local economic development high on the local political agenda.

Though local governments have traditionally used instruments such as land development and fiscal incentives to promote and attract local business activity, this approach will eventually be increasingly insufficient. More and more municipalities will feel challenged to embark on a local economic development policy 'new style'. What this means, will be different for each locality, but it is sure that it will be largely a case of experimenting, as no body of information on 'best practices' has so far been developed.

Closely following the further developments in Porto Alegre is important. Compared to a majority of municipalities in Brazil and other countries, Porto Alegre works on an innovative municipal role in local economic development, which may have positive long term impacts.

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