Territorial Development: How the spatial approach can complement the sectoral approach

Geography has had historically an effect on growth, both direct (i.e. through its impact on transportation costs, human health, agricultural productivity, and access to natural resources), and also indirect (e.g. the rent-seeking institutions so often associated with natural resource booms). The mechanisms that regulate access to resources are an essential force in the process of territorial development. Access and use of natural resources (in particular land and water, but in certain territories also minerals and forests) are among the most determining drivers of spatial occupation.

Many LCR countries have been implementing territorial approaches and policies based on decentralization, growth centers, human capital investment, transportation system improvements, cluster-based development, and other policy frameworks explicitly targeting the development of certain regions for geo-strategic reasons. However, interest in a Territorial Development approach only resurfaced in the LCR in the early 1990s, partly in response to observed spatial disparities in living standards and welfare between broad regions and smaller localities, between rural and urban areas, across high potential (competitive) and lagging regions, or between neighborhoods within the largest cities. Interest in rural-urban linkages has also grown rapidly over recent years, and this interest has been manifested in the so called livelihoods and assets approach, widely popularized by DFID, and the territorial approach, based on the EU LEADER Initiative.

The 2008 World Development Report (WDR) makes the territorial approach the centrepiece of its Latin American and Caribbean strategy, reemphasizing the World Bank speak of the “promise of territorial development” in a former substantive publication (Beyond the City). The Inter-American Development Bank has adopted a territorial approach in its new rural development strategy; IFAD is developing projects that focus on the development of rural territories in Peru and other Andean countries. The upcoming 2009 WDR on Spatial Disparities and Development Policy is proposing a framework for understanding the dimensions and significance of spatial factors in shaping economic and social development, assess the forces underlying this transformation, and discuss what governments can do to facilitate the spatial transformations needed to sustain economic development.

Growing demand for Territorial Development and resulting challenges

The growing demand in Latin America and the Caribbean for territorial development programs is explained in part by the increased differentiation and polarization of rural territories and the fact that macro- and sectorial economic policies and social protection programs focusing on deprived groups have been insufficient to deal with the territorial dimensions. Strong demand for territorial programs and other spatially targeted interventions also suggests that factors that mediate growth spillover effects between economically dynamic regions and neighboring lagging regions are not delivering the expected effects, or at least not fast enough. While migration can serve as an escape boat to spatial inequality (since factors of production can migrate across regions to take advantage of higher economic payoffs offered by the already-successful economic centers), the rural labor expulsion at such low levels of education and savings as has been observed in the region is a symptom of the limited high-quality employment paths for the current rural poor (i.e., inequality of opportunity and inequality of endowments) and is the source of the growth without equity and persistent poverty pattern that locks regions in paths of economic stagnation, lack of innovation, social conflict and ever worsening social exclusion.

The challenge of territorial development programs is to turn these forces around. Key questions include: Should public investments be targeted towards more favored areas in the hope...
that synergisms and economies of agglomeration create conditions for self-sustaining rural growth? Or, should less-favored regions receive a larger share of this investment to compensate for historical under-investment in these areas? Which regions and households are best able to take advantage of the emerging opportunities? What should be done to support those who cannot? Can territories locked in paths of economic stagnation, lack of innovation, social conflict and ever worsening social exclusion turn around? What can be done to strengthen the agency of the poor and socially excluded to change development paths?

Sustaining growth in the face of adverse circumstances requires ever stronger institutions. Hence, the importance given in territorial programs to improve the asset position of the poor through access to land, forests and other key resources; encourage organizational membership to develop social capital and collective action to increase political representation by civil society organizations and create demand on local and national governments to better coordinate local social services, economic gains and poverty reduction programs.

The promise of Territorial Development is that it can be instrumental to bridge the Bank’s sectoral approaches to work multi-sectorally within the economic–social development strategy of a territory. There is compelling evidence on how lack of spatial focus undermines any sectoral policy and the ways improved complementarity of investments with increased cross-sectoral cooperation is critical to realize higher levels of project impacts. Many countries in the region are now pursuing territorial approaches to generate rural investment and employment opportunities by promoting clusters of complementary firms in selected geographical locations. Local agricultural production systems can capitalize on the comparative advantages of a territory’s agro-ecology, proximity to urban centers, and institutional and cultural endowments to develop activities with local spillovers and growth potential.

Box 1. Territorial development is not a blueprint

Rather than a blueprint, territorial development is a process characterized by pragmatic adaptation to local or regional conditions. It has distinguished between marginal and favorable regions, and has sought to integrate rural and urban activities in a territorial dimension centered around regional economic projects and the economic incorporation of the poor. The territorial development programs’ most fundamental principles that are being directly supported by project components and investments include the following:

- programs follow a territorial as opposed to a sectoral approach (“rural” means more than simply “agricultural”);
- programs seek coordination mechanisms with macro and sectoral policy, programs must “territorialize” centrally defined sector policies;
- programs promote a process of productive transformation (leading to growth) and institutional change (leading to social inclusion) of a rural space with identity and a concerted, long-term development vision
- programs consider space as a construct of small towns, intermediate cities and their agricultural hinterland–urban-rural linkages are constituent elements of a territory;
- programs support different routes out of poverty (agriculture, rural non farm, migration and pluri-activity);
- programs are formulated and managed with a medium- and long-term perspective;
- programs facilitate identification of local investment demands;
- programs often channel these demands to municipal and state-level governance structures;
- programs emphasize fiscal and financial decentralization, participation by public, private, and civil society, and collective action to increase political representation by civil society organizations;
- programs create demand on local and national governments to better coordinate local social services, economic gains and poverty reduction programs;
- programs stress devolution of managerial functions to communities via CDD approaches with local community organizations, as well as with sub-national governments;
- programs build local capacities to manage financial resources and procurement, and integrate efforts to support national and local support systems for monitoring and supervision of public service delivery;
- programs promote initiatives to improve the asset position of the poor through access to land, forests and other key resources; encourage organizational membership to develop social capital; and provide safety net programs to support entrepreneurship among marginalized poor;
- programs bring about a productive transformation of the region, including linking the region to dynamic and international markets, developing local and regional financial institutions, promoting the competitiveness of the region and local entrepreneurs, and investments that generate local positive externalities;
- programs work on the provision of relevant, cluster-oriented market information for regional and local governments, chambers of commerce, and other organizations with dissemination capacity;
Territorial Development needs to be balanced with the broader regional and national interests

It is critical to understand whether territorial interventions can be justified to promote the welfare in less prosperous regions and what the opportunity cost of funds diverted from other programs could be based on the actually achieved social and economic outcomes in the target territories. Economic theory predicts that people will move across regions until expected returns are equalized so evidence of wage (or other welfare indicators) equalization across origin and destination locations attributable to migration needs to be considered. The role migration as an escape boat to spatial inequality needs to be considered. Several studies have focused on the national gains of detailed geographical targeting of poverty-focused fiscal transfers across lower-level jurisdictions when there is low labor and capital migration. Key questions include: Can poor regions grow faster than better-off regions if they can achieve the levels of education and infrastructure coverage observed in the rich areas? What are the impacts of policies that invest in education or infrastructure in lagging regions when factors of production can migrate across regions to take advantage of higher economic payoffs offered by the already-successful economic centers? Therefore, potential pitfalls in territorial development programs may include:

- Interegional spillover effects which can be large enough to undermine territorial programs
- Using project resources to substitute for or mitigate failures or absences of markets which is ineffective since these problems may reappear once a project ends
- Not fully recognizing the market and market agents which increasingly determine the trends, opportunities and constraints with which the rural poor must deal
- Contradictions with macro policies which could make territorial programs unviable and unsustainable in the long term with limited scaling-up possibilities

Territorial development potential contributions and policy entry points

How well territorial development is avoiding these pitfalls is difficult to know because of lack of systematic evaluation of territorial programs. However, there is need for further experimentation with territorial development programs at a real scale in lagging areas, to move from promising ideas and concepts to a set of experiences with social learning in actual territories. There are at least three policy entry points for territorial development programs to realize their full potential:

Encouraging flows of public and private investment to territories affected by poverty and inequality, which means that territorial programs can act on variables such as:

- public goods that shape the productivity of firms in the territory: roads, electrification, systems of innovation, public safety, etc.;
- access to financing for firms;
- the labour market, including skilled labour;
- regulatory and administrative barriers that affect business costs and competitiveness;
- obstacles to access to the dynamic markets with which a territory could be linked;
- differentiated fiscal stimuli

“Territorializing” those investments, which means that programs can act to maximize synergies and multiplier effects for investment in territories focusing on the following dimensions:

- “De-agriculturalising” rural policy is the first step in “territorializing” public and private investment. This does not mean ignoring agriculture, but it does mean ceasing to address agriculture at the expense of the other sectors that are part of a territory’s economy
- Strengthen inter-sectorial links, involving micro-, small and medium-sized businesses located in the territory
- Strengthen urban-rural links with specific actions in those urban nuclei to where poor people are more directly linked as buyers and sellers of products and services
- Recognize and act on the value of intangible goods such as cultural capital and territorial identity

Influencing institutional frameworks which means that programs can help make explicit the territorial dimension (or provide a territorial referent) and include poor and excluded sectors concentrating on the following aspects:

- Encourage and facilitate initial encounters between organisations representing different sectors in the territory. Encounters emerge not by spontaneous generation. They require time, trained facilitators, adequate resources and effective methodologies
References
Adapted from the World Development Report 2008 Agriculture for Development with additional information from regional studies and anecdotal evidences.

About the Authors
Francisco Pichón is Senior Natural Resource Management Specialist with the World Bank’s Latin America and the Caribbean Region Agricultural and Rural Development Unit. Currently, he is in an external assignment with the Rome-based International Fund for Agricultural Development.

The 2008 World Development Report (WDR) “Agriculture for Development” characterizes agriculture as vital development tool for achieving the Millennium Development Goal that calls for halving by 2015 the share of people suffering from extreme poverty and hunger. The report provides guidance to governments and the international community on designing and implementing agriculture-for-development agendas that can make a difference in the lives of hundreds of millions of rural poor. This brief is part of a series prepared by LCSAR that summarizes and interprets the principal messages of the WDR 2008 and discusses region-specific implications for Latin America and the Caribbean (LCR). The series comprises the following topics: (i) Agricultural Innovations in Science and Technology, (ii) Value Chain Development and Integration of Small Farmers, (iii) Agricultural Trade Policy, (iv) Land Administration and Access, and (v) Territorial Development.