Is Medellin an example of a ‘local developmental state’?:
Local state promotion of small enterprises in ultra-poor communities

Milford Bateman
Research Fellow
Overseas Development Institute
London

Presentation at the ODI Seminar:
‘Is a new post-Washington consensus local development model emerging in Latin America?
Reflections on local economic and social development in Medellin’
ODI, 28th April, 2011 4.00-600pm
Background

- *La Violencia* in the 1950s and 1960s

- narco-industry and paramilitary violence in 1970s and 1980s

- A sort of peace came in mid-1990s

- Long tradition of textiles and industry

- Construction boomed as narco-profits recycled

- But….still very serious poverty, deprivation and inequality in Medellin in the 1990s
Medellin’s response in the 1990s

• Realisation that the Washington consensus free market was part of the reason for the violence – most researchers agree that unrestrained private accumulation, endemic poverty, massive inequality and social deprivation underpin violence.

• Need for new development model to ensure a more balanced, pro-poor economic and social development trajectory.

• Need to (re)build institutional capacities to promote equitable and sustainable local economic and social development.

• Need to inculcate solidarity and a belief that a better future can be shaped locally by local people working together.
Elements of a ‘local development state’ begin to emerge in Medellin

• Creative use of community ownership (Empresas Publicas de Medellín (EPM)) – 30% of profits to city

• Community-driven ‘inclusive’ transport facilities – Metro system, Metro cable (ski lifts), etc

• Medellín Solidaria – cash grants program for poor

• ‘Cultura E’ program – major investment in public assets to develop the local economy through enterprise development
Key local enterprise development institutions

– Need to include the poorest parts of Medellin in economic activity. Two institutions seen as the key:

– City government financed business support bodies – the CEDEZO:
  - develop microenterprises owned by poorest
  - has secure funding, so works for the good of the community, not for itself (like a private consulting body)

– Banco de las Oportunidades – a microfinance bank working in poorest communities:
  - provides low cost microloan
  - no collateral required
Results to date?

• Some modest outputs to date
  – some new jobs, new income streams for some
  – Some simple market links developed between poor barrio communities and the richer community in the valley and even outside Medellin
  – confidence (that things are ‘happening’ and perhaps ‘improving’) appears to have increased
However…

- **Working with de novo microenterprises is no solution;**
  - Ultra-high displacement rates, no NET employment, income
  - High failure rate of microenterprises too, so poorest continually lose assets in a process of ‘job churn’

- **Far too little effort put into converting existing micro into small;**
  - Too complicated and time-consuming to do this
  - Needs non-local market opportunities, which are not there

- **Gendered outcomes not good**
  - Clear sign of ‘ghettoisation’ and disempowerment effects’
  - Loading up women with additional jobs is regressive move

- **Need to work with de novo productive SMEs**
  - Most clients not ‘real’ entrepreneurs, so impossible
  - Anyway, no technical capacity to help them in CEDEZO
  - And no financial support from B de las Oportunidades
Is this the key conundrum?

• We know that the lack of local demand is a DEFINITION of the extent of poverty in a community.

• Most microenterprises that succeed do so on the basis of demand from OUTSIDE the poor community, not demand simply RECYCLED WITHIN IT.

• Yunus, De Soto, Moyo argue that a microenterprise serving local demand is a logical route out of poverty for the poor…

• But this is quite wrong – it is generally no more than redistribution of poverty within the community of the poor, not its eradication – here we have the ‘fallacy of composition’!
The required response?

- Local demand in businesses and government needs to be ‘relocalised’ to leverage benefits for local enterprises (starter contracts, technology transfer, social enterprise development [cooperatives] etc)

- CEDEZOs to focus on sustainable enterprises, not helping clients

- CEDEZOs need technical capacities to be pro-active and developmental

- B de las Oportunidades needs ‘development finance’ not ‘micro finance’

- Medellin is getting to be comparatively ‘institution thick’, but needs much more coordination and interaction between these institutions

- Medellin needs a local industrial policy approach to development, building and investing towards its own unique comparative advantage
Conclusion

• Medellin has an impressive industrial and agricultural past, and real potential remains for the future

• ‘Washington consensus’ local policy models failed – more poverty, inequity, deprivation was generated

• Medellin has made significant strides towards pioneering a new local development model – ‘social urbanism’ or the ‘local development state’….

• Some real achievements to date, among which is that it has created confidence and inculcated solidarity

• But there is a need to extend and deepen the set of INSTITUTIONS that underpin this emerging local development model