



**the dplg**

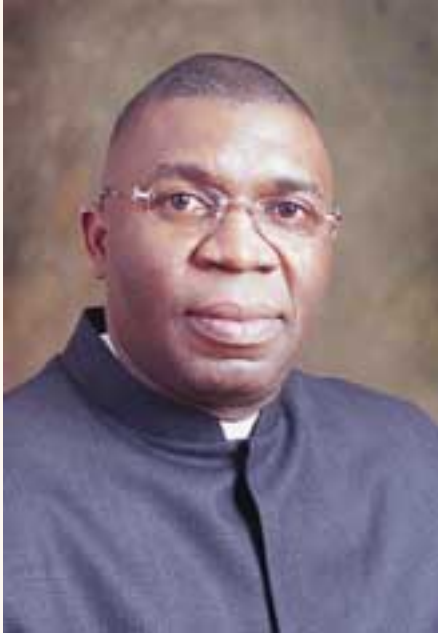
Department:  
Provincial and Local Government  
**REPUBLIC OF SOUTH AFRICA**

**STIMULATING AND DEVELOPING  
SUSTAINABLE LOCAL ECONOMIES**

**National Framework for  
Local Economic Development (LED)**

in South Africa (2006 – 2011)

## FOREWORD



### **Stimulating and Developing Sustainable Local Economies**

In the final analysis, all economic development takes place at the local level and Local Government must influence the shape and direction of local economies if the national economy is to attain the goals set for it and if it is to grow and create a better life for all its residents.

The people within all communities of South Africa wish to see evidence of local development and there is an expectation that local government will drive the process. This expectation provides a new challenge and opportunity for local government to make a meaningful impact on the lives of its communities. For the opportunity to be seized, the local public and private actors must work together in order to create sustainable local economies.

However, there still exists a fundamental need to build a shared understanding among decision-makers, implementers and other stakeholders, both in the public and private sectors, regarding what constitutes appropriate and effective local economic development practice.

This National Framework for Local Economic Development in South Africa seeks to do just that – build a shared understanding of good LED practice and motivate more effective implementation. The Framework is the product of intense dialogue and deliberations amongst several government departments and spheres. It has also had the active input of a number of different constituencies and stakeholders.

We would like to thank the LED Technical Team, made up of officials from the Department of Provincial and Local Government (dplg), the Department of Trade and Industry (dti) and the South African Local Government Association (SALGA), who were ultimately responsible for producing this document. There are also numerous other individuals and organisations, inside and outside government, who contributed to the document. Our heartfelt gratitude goes out to them for their time, commitment and enthusiasm. The input of all provinces and municipalities in particular is noted with appreciation. We would also like to thank the Economic and Employment Cluster of Directors-General who provided strategic guidance.

All these individuals and organisations helped shape a product that is truly a collaborative effort. It is, we believe, an accurate reflection of the current state of thinking about locality-based economic development that has to be supported across all three spheres of government and through active social actor involvement.

**Minister FS Mufamadi**

Minister of Provincial and Local Government



“It is essential that we create conditions under which the local economy can grow. The Government’s “Framework for Stimulating Local Economies” clearly indicates the need for sustainable community investment programmes. Municipalities have a responsibility to see that available opportunities are properly utilised at local level. There is ample scope for innovative ideas and practices in this regard, which can frequently be developed through community stakeholder participation.”

**Deputy Minister NE Hangana**

Budget Vote Speech, National Council of Provinces,  
30 May 2006



“The National LED Framework gives attention to what we mean by LED in South Africa. The nature of LED, particularly for us, as a developing country, and a state that has consciously indicated that it is a developmental state. What does it mean to practise LED in a continent like ours, in Africa.”

**Director General: Lindiwe Msengana-Ndlela,**

National Conference on Developing Local  
Economies, 14 August 2006

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## EXECUTIVE SUMMARY

The National Framework for LED in South Africa aims to support the development of sustainable local economies through integrated government action. This government action is developmental and stimulates the heart of the economy which comprises those enterprises that operate in local municipal spaces.

The framework is underpinned by an appreciation of the evolving practice of LED internationally and is based on the unique South African context and challenges. It contextualises the move towards “new institutionalism” that breaks down the distinction between economy and society, showing how economic decision-making and action is shaped by the shared values, norms, beliefs, meanings, and rules and procedures, of the formal and informal institutions of society. The normative agenda of the New Institutionalism is to develop shared meaning and values, and to strengthen the networks of social interaction. This has also been variously described as building social capital, or developing social cohesion.

The evolution of LED policy in post-1994 South Africa is closely associated with the transition to *developmental local government*. As early as 1995, Constitutional debates on the future form and shape of local government articulated a far more proactive role for municipalities. The declaration of local government as a sphere (rather than a tier) of government reflects the importance that was attached to local state actors during that early period. The final version of the Constitution itself declared that a fundamental objective of local government was to promote social and economic development in localities (RSA, 1996).

The following range of key policies and policy papers have, either directly or indirectly, defined or contributed to this Framework:

- The Constitution (1996)
- White Paper on Local Government (1998)
- Local Government: Municipal Systems Act (2000)
- A policy paper on Integrated Development Planning (2000) and IDP Guide Pack.
- Led Strategies and Instruments

- LED Guidelines to Institutional Arrangements (2000)
- Discussion document on LED Policy (2002)
- Policy Guidelines for implementing LED in South Africa (2005)

There are ten (10) guiding principles identified for the framework supported by seven (7) main objectives and eight (8) main outcomes for the next five years. This framework supports the Strategic Agenda for Local Government and the 5-year Local Government Implementation Plan (2006-2011). LED is one of the five Key Performance Areas (KPA) for Local Government. As a key performance area, LED as an outcome, is strongly interrelated and dependent on the other four KPAs. These include: Municipal Transformation and Organisational Development, Basic Service Delivery, Municipal Financial Viability and Management, and Good Governance and Public Participation.

The framework promotes a strategic approach to the development of local economies and a shift away from narrow municipal interests focussed only on government inputs into ad-hoc projects. The application of the National Spatial Development Perspective (NSDP), Industrial Policy, ASGI-SA and the Provincial Growth and Development Strategies (PGDSs) through joint action with municipalities institutionalised in IGR forums is the driving force for local and hence national economic growth and development.

There are two major policy thrusts identified. These are: **Public Sector Leadership and Governance** and **Sustainable Community Investment Programs**. Four key strategies emanate from these policy thrusts with accompanying main actions, implementation and funding approach. These are: (1) Improving good governance, service delivery, public and market confidence in municipalities, (2) Spatial development planning and exploiting the comparative advantage and competitiveness of Districts and Metros, (3) Enterprise support and business infrastructure development, and (4) Introduce sustainable community investment programs focussing on organising communities for development and maximising circulation of public spend in local economies.

## Chapter I INTRODUCTION

The National Framework for LED in South Africa has been developed as a guide that seeks to advance an understanding of LED and has put forward a strategic implementation approach that municipalities, provinces, national government, state-owned enterprises and communities may concentrate on in order to improve local economic development. This Framework also seeks to guide the implementation of the LED Key Performance Indicator of the 5-year Local Government Strategic Agenda through the suggested actions.

The Framework was launched for discussion at the national conference on “Developing Local Economies” opened by Minister Mufamadi on 15 August 2006. It was presented at the President’s Coordinating Council meeting of 8 September 2006. It was also endorsed by Local Government Minmec on 26 September 2006.

This introductory chapter describes latest thinking and practice on LED. Its purpose is not to make a policy statement on LED but rather to understand the evolving approaches to LED and how this may interact with practice in South Africa.

### New Thinking on Local Economies

Thinking about local economies and the practice of local economic development (LED) is continually evolving. In its early form LED was associated with inter-locality competition to attract mainly industrial investment. From the late 1970s LED expanded its compass, and took different forms in different contexts, ranging from the public-sector led Local Enterprise Boards in the UK to the flagship projects of private-sector led entrepreneurialism in the inner-cities of Europe and North America, although the distinction between public and private initiative was to be blurred by the rise of growth coalitions and the increasingly popular concept of partnership. Despite the different approaches in the 1970s and 80s, a common theme was the role of local actors in defining their autonomy - in taking independent initiative as a response to the threats of global restructuring and, sometimes even, to hostile national policies.

“The New Institutionalism breaks down the distinction between economy and society”

### “New Institutionalism”

The past decade or so has seen further shifts in the idea of local economic development, and it is important for policy-making in South Africa to engage with these, although it should always be a *critical engagement*, mindful of local context, and the passing of intellectual fads and fashions. The strongest influence on contemporary international thinking in the field comes from the ‘New Institutionalism’, an intellectual movement that has developed simultaneously in both economics and social theory. The New Institutionalism breaks down the distinction between economy and society, showing how economic decision-making and action is shaped by the shared values, norms, beliefs, meanings, and rules and procedures, of the formal and informal institutions of society. The normative agenda of the New Institutionalism is to develop shared meaning and values, and to strengthen the networks of social interaction. This has also been variously described as building *social capital*, or developing *social cohesion*.

At least partly due to the influence of the New Institutionalism, contemporary ideas in the study of local economies and the practice of LED include: the role of the locality within multiple, complex networks that may extend right up to the global scale; the role of institutions in supporting economic development and the importance of strengthening these institution; both the ‘hard infrastructure’ provided by new technologies and the ‘soft infrastructure’ of social networks and interaction; the mix between co-operation and competition that is required to support development; the importance of knowledge transfer and innovation; and, the need for sustainable and inclusive patterns of growth.

Many of these themes come together in the idea of the **economic clustering**, which has received a remarkable degree of attention in the international literature. The idea that the concentration of economic activity supports competitiveness is an old one, but the rise of the knowledge-intensive New Economy has redirected attention to the cluster. The idea is that the innovation, collaboration, knowledge transfer and networking required to support competitiveness in the New Economy is facilitated by the intensity of linkages provided within a dense clustering of related firms<sup>1</sup>.

1 The most well known proponent of the competitive spatial cluster is Harvard’s Michael Porter, whose work has been influential in the South African context but many other writers have written of the importance of clusters, using terms such as industrial districts, new industrial space, local production systems, and knowledge-based agglomeration.  
2 Johannesburg’s Nelson Mandela Bridge as an example.  
3 The seminal texts on creativity and the city are Charles Landry’s *Creative City: a Toolkit for Urban Innovators* (2001) and Richard Florida’s *The Rise of the Creative Class* (2002).  
4 The South African Cities Network as an example of what this might be.

A second strong theme that flows more from the '**cultural turn**' than institutionalism is the emphasis on identity, meaning, and image in the promotion of economic development. This partly has to do with the importance of symbolism in development<sup>2</sup> but also with the use of creative industries such as film, fashion, music, and the visual arts, to promote economic regeneration. An institutionalist perspective is concerned with how social and economic networks support creativity and entrepreneurial culture through knowledge transfer and innovation.<sup>3</sup>

A third theme of concern is **institution building**. Much of the focus in development thinking since the mid-1990s – including from within mainstream institutions such as the World Bank – has been about 'getting institutions right'. From an institutionalist perspective, this is not primarily about capacity development within individual organizations but about developing institutional strength through building associational networks. This may include, for example, strengthening business associations, SME networks, inter-municipal collaboration<sup>4</sup>, partnerships with higher education and research institutes, and growth coalitions involving municipal government, business, workers, and civic society. The key challenge is how to mobilize actors to become involved in associational networks<sup>5</sup>.

A fourth area which has shifted thinking about LED is around the **non-local relationships to local development**. Traditional LED, as indicated, promoted self-sufficiency but, increasingly, recognition is given to the importance of regional, national, continent-wide, and even global processes, in the shaping of a local economy, and to the significance of support for LED from across scales of governance. A clear example of this is the role that the European Union, and its component national and regional governments, now plays in supporting local development processes. Whereas the focus in the past was on autonomous local initiative, today it is on the integration or 'joining up' of support to local economies from various agencies and spheres of government, and the linking of this support to local initiative.

A fifth related issue is the appropriate **scale of 'local' intervention**. A narrowly localist perspective has given way to a regionalist perspective referred to by some as the 'New Regionalism'. The underlying argument is that the locality is generally too small to play a meaningful role in national and

global competition, and has little political weight. The idea of the City-Region has become an especially important framing concept. This idea has been taken up very energetically in Gauteng province, South Africa, for example where the notion of the Global City-Region is being used to renegotiate a set of institutional relationships involving three metropolitan councils, the provincial government and a number of district and local authorities.

Sixthly, there is a growing recognition that patterns of local economic development need to be **socially inclusive** if they are to be sustainable. Institutionalists have been rightly criticized for their lack of attention to the uneven relations of power within the social and economic networks that they refer to so often. The questions of who benefits from economic development, and whose interests dominate within partnerships and networks are asked far too infrequently and are significant issues within the South African context

The concern with social inclusion has restored some attention to questions of distributive justice and poverty alleviation. Inclusivity as a concept relates well to the institutionalist concern with connectivity – the opposite of inclusivity being exclusion or prevention of others from participating meaningfully in networks of livelihood, economy and governance. It is significant that even the most mainstream of approaches to LED do now incorporate a concern with inclusivity, the World Bank's current definition of LED providing an example:

Local Economic Development (LED) offers local government, the private sector, the not-for-profit sectors and the local community the opportunity to work together to improve the local economy. It aims to enhance competitiveness and thus encourage sustainable growth that is inclusive<sup>6</sup>.

## The Global South

A seventh point is that, although the global South is still marginalized in the academic literature, there is a small but growing body of literature that draws on the experience of localities in regions including Latin America, East and South Asia, and Africa. South Africa has contributed significantly to this literature<sup>7</sup>, although there is still insufficient engagement with the new international writing on local economies. There is also, for

<sup>5</sup> Although networks are a dominant theme, the literature does give recognition to the role of individuals within the networks, including recently the role of the 'strong mayor' in supporting economic development, especially through the cumulative effect of good decision-making.

<sup>6</sup> See links from [www.worldbank.org](http://www.worldbank.org)

<sup>7</sup> Important contributions coming from individuals such as Chris Rogerson, Richard Tomlinson, and Etienne Nel



example, a compelling literature on local economic development in Brazil which describes the emergence of economic clusters including the Campinas high technology cluster noted for its strong linkages between research institutes and local firms, and the Sinos Valley footwear cluster. The literature on clusters has also drawn attention to the lesson we may learn from the so-called Silicon Plateau in Bangalore, India, the surgical instruments cluster in Pakistan, the automobile cluster in Mexico (and in South Durban, South Africa), as well as informal clusters in Nigeria, Ghana and elsewhere in Africa where advantages include the low barriers to entry. The cluster is, however, not a panacea to all local economic ills, and so we need to look further into the literature to find lessons from the global South. Perhaps the most important literature is around the promotion and support of sustainable livelihoods.

In conclusion, the now dominant institutionalist perspective on economic development has greatly expanded what is considered to be relevant to the realm of economics, directing atten-

tion to such areas as institution building, knowledge transfer, social interactions, and cluster development. There are, however, limitations to the institutionalist perspective. Apart from its inadequacies in addressing matters of inequality and power, the focus on associational networks may be to the detriment of attention to public policy. Such a perspective should be complemented with attention to the role of state policy in providing the supportive environment and infrastructure that firms require<sup>8</sup>. It should also be complemented with a serious attempt to develop conceptions of local economic development that draw on the experiences of the global South, and of the South African context in particular. A South African perspective may, for example, attempt to bring together perspectives on enterprise development with the literature on supporting household livelihood strategies. Given the huge social inequalities in South African society but also the imperatives for economic growth, a South African perspective may also attempt to bring together ideas of place competitiveness with concerns for poverty alleviation and distributional justice.

## Chapter 2

# GUIDING PRINCIPLES

Flowing from the evolving practice of LED described above and the South African national context described below, there are ten (10) principles identified that guide this framework. These are:

- i Through a developmental approach, **Government has a decisive and unapologetic role to play in shaping the economic destiny of our country.**
- ii Creating an environment in which the overall economic and social conditions of the locality are conducive to the creation of employment opportunities is the responsibility of Local Government.
- iii Local Economic Development is an outcome of actions and interventions resulting from local good governance and the constant improvement and integration of national priorities and programs in local spaces
- iv Inward investment from the state or private sector will only be effective where the potential and competitive advantages of each area are known and exploited.
- v Promoting robust and inclusive local economies requires the concerted, coordinated action of all spheres and sectors of government centred on the application and localisation of the principles espoused in the National Spatial Development Perspective (NSDP).
- vi Locally owned appropriate solutions and strategies must emerge to support national frameworks in both rural and urban local spaces and should promote sustainable development and sustainable human settlements.
- vii South Africa competes in a global and increasingly integrated world economy whose threats must be minimised and whose opportunities must be exploited.
- viii Private companies, including social enterprises and cooperatives, form the heart of the economy and have a crucial role to play as partnerships with public and community role players that will ultimately stimulate robust and inclusive local economies.

- ix People are the single greatest resource and including all citizens in development and increasing their skills leads to increased opportunities for stimulating local economies.
- x Local initiative, energy, creativity, assertive leadership and skills will ultimately unlock the latent potential in local economies and will shape local spaces.

### Objectives of the framework

- i To shift towards a more strategic approach to the development of local economies and overcome challenges and failures in respect of instances where municipalities themselves try to manage litany of non-viable projects or start-ups.
- ii To support local economies in realising their optimal potentials and making local communities active participants in the economy of the country.
- iii To elevate the importance and centrality of effectively functioning local economies in growing the national economy.
- iv To wage the national fight against poverty more effectively through local level debates, strategies and actions.
- v To improve community access to economic initiatives, support programmes and information.
- vi To improve the coordination of economic development planning and implementation across government and between government and non-governmental actors.
- vii To build greater awareness about the importance and role of localities and regions which globally are playing an increasingly significant role as points of investment facilitated by supportive national policies.

### Outcomes of the framework over the next five years

As a result of this framework the following outcomes will be delivered:

- i Analysis of the 52 district and metro municipal economies undertaken and shared understanding across government of the challenges and potentials of these areas developed.



- ii The comparative advantage and competitiveness of all District and Metro municipalities are identified, incorporated into its LED strategy and exploited.
  - iii All District and Metro municipalities have credible LED programs, which are being effectively implemented by a dedicated local economic development unit or similar entity.
  - iv All Municipalities have LED strategically placed in the organisational structure in order to effectively coordinate inputs that impact and strengthen the local economy.
  - v The implementation of the IGRF Act and the effective utilisation of IGR structures occur to encourage and facilitate discussion and joint economic planning among municipalities and with Provincial and National Government.
  - vi All municipalities have innovative spatial development strategies, land-use policies, by-laws and implementation capacity to facilitate fast and effective business establishment and functioning, especially for informal/street traders, and SMEs.
  - vii All municipalities have at least one public-private partnership through which a major investment is being implemented.
  - viii A national excellence centre for monitoring, learning and research in local and regional economies is established.
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## Chapter 3

# NATIONAL CONTEXT – SOUTH AFRICA'S ECONOMY AND SOCIETY

### 3.1 Policy Context for LED in South Africa

#### 3.1.1 Local Government Considerations.

The White Paper on Local Government (1998) introduces the concept of “developmental local government” which is defined as: “Local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives.” However the same document makes it clear that:

“Local Government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities”

**Thus, local economic development is about creating a platform and environment to engage stakeholders in implementing strategies and programmes.**

The White Paper goes on to state that:

“The powers and functions of local government should be exercised in a way that has a maximum impact on the social development of communities – in particular meeting the basic needs of the poor – and on the growth of the local economy.”

#### 3.1.2 Constitutional Considerations.

While the Constitution (1996) places a great responsibility on municipalities to facilitate LED, the schedule in the Constitution that lists the functions of municipalities does not include LED. This has contributed to an interpretation that sees

LED as an un-funded mandate for municipalities. Rather, there is a clear implication given the juxtaposition of the constitution and its schedule that municipalities have a key role in creating a conducive environment for investment through provision of infrastructure and quality services, rather than by developing programmes and attempting to create jobs directly.

Beyond this, municipalities should play a connector role in respect of LED drawing upon resources locked in a range of different government support instruments into their localities. For example, municipalities can draw on the support of the Sector Education and Training Authorities (SETAs) to address skills development in their areas. They can draw on the support of the new Small Enterprise Development Agency and other agencies at the Department of Trade and Industry and national sector departments to assist with the retention and growth of enterprises in their area. Besides government support programmes there are a range of non-governmental support initiatives that municipalities can tap into for resources.

The issue of funding for LED nevertheless remains a matter to be addressed. In the context of realising the economic development facilitation role of districts envisaged in the White Paper on Local Government and within the evolving experiences reflected in the local government review, funding for institutional capacity as well as implementation programs should be established through a review of powers and functions and the equitable share grant.

#### 3.1.3 Districts and Metros: The Arena for Intergovernmental Coordination and Social Partner Mobilisation.

A review of the first term of local government (2000-2006) was undertaken by dplg. The review was to a large extent based on the lessons emanating from the implementation of Project Consolidate which included the Presidential Imbizos in selected municipalities. The results of the IDP Hearings held throughout the country in 2005 also informed the review.

The review has resulted in a 5-year Strategic Agenda for the 2nd term of Local Government (2006-2011). An implementation plan for the Strategic Agenda has been drafted. The Strategic Agenda contains three high-level activities:

- a. Mainstreaming hands-on support to Local Government to improve municipal governance, performance and accountability;
- b. Addressing the structure and governance arrangements of the State in order to better strengthen, support and monitor Local Government; and
- c. Refining and strengthening the policy, regulatory and fiscal environment for Local Government and giving greater attention to the enforcement measures.

The Strategic Agenda recognizes that significant progress was made in bringing government closer to communities through the establishment of wall-to-wall municipalities and ward committees. Whilst many municipalities still face establishment challenges, the majority has undergone this phase and is mainly engaged in consolidating their role and functions. Part of this engagement includes constituting the requisite capacities to fulfil their obligations effectively.

Much more needs to be done to realize the Local Government White Paper vision of developmental local government. The achievement of this vision is integrally linked to a supportive role by national and provincial government in promoting seamless and integrated service delivery and development in communities.

The Strategic Agenda for Local Government is underpinned by the concept of a unitary government wherein a de-concentration of national and provincial government capacity connects with the capacities of municipalities to produce the required governance capability for sustainable local development.

LED is one of the 5 key performance areas (KPA) for Local Government in the implementation plan. The approach to LED is based on a joint government effort reflected in the policy shift approved by Cabinet - district and metropolitan IDPs are to become local expressions reflecting the synergised inputs of all three spheres of government. In this regard LED is not just about what municipalities do, but more critically what the rest of government does together with municipalities.

**The district and metropolitan scale is ideal for this de-concentration and for intergovernmental coordination.**

**The district and metropolitan scale is ideal for this de-concentration and for intergovernmental coordination. It is large enough for national and provincial government to organize their capacity spatially, and small enough to respond to local/regional conditions and unique requirements.**

The 52 district and metropolitan municipal areas are thus the ideal arenas for intergovernmental coordination in South Africa. Governments' efforts should be measured against the ability to develop a shared understanding of the needs and opportunities of these areas and the realization of integrated development outcomes in these areas (sustainable human settlements and robust local economies).

Organizing government around the 52 IGR impact zones is a strategic way of addressing capacity challenges. It is about mainstreaming and institutionalizing hands-on support rather than managing it in an ad-hoc way through arbitrary support interventions. It is also about getting a better fit between policy and implementation through spatially focused needs assessment, and to build accountability amongst municipalities and line departments around the responsiveness to these needs.

## 3.2. South Africa's Economy and Society

### 3.2.1 Background.

South Africa is on the brink of raising economic growth to unprecedented levels. With all the macro-economic fundamentals in place the country aims to reach a consistent annual economic growth rate of at least 6% per year by 2010. The limitations of a country in which half the population exists in a marginalised second economy can retard this long set goal. It is necessary for accelerated and shared growth to address unemployment and poverty which are fundamental challenges to many local economies and hence South Africa's future.

Through its Accelerated and Shared Growth Initiative for South Africa (AGSI-SA) the State together with its agencies will become more focused over the next 10 years in accelerating growth leading to large-scale social transformation. The latter

will have to impact on the large marginalised townships and rural areas, the heart of the second economy. Wide-scale social mobilisation through information, knowledge and skills programmes can help drive us to a higher growth path. This approach recognises communities as their own change agents, rather than just passive citizens to whom services must be 'delivered'. The active involvement of local populations in the development process is the path to accelerated and shared growth in local spaces.

The State will be more vigorous in creating an enabling environment for individuals, businesses and communities to organise themselves, take control of their destiny and work towards prosperity. The government should implement its electoral mandate by enhancing its developmental role and working together with communities in a "people's contract" to find solutions to their economic, social, and material needs.

As part of its Inter-governmental relations (IGR) vision, Government will act in a coherent way to achieve integrated outcomes in different municipal areas. The district and metropolitan areas provide a suitable platform for the concentration and coordination of state activity. They also provide a framework to ensure that locality-based development is being pursued to the benefit of local areas and all of their residents, in a fair and responsible manner, by municipalities and local partnerships. This framework, consisting of a policy thrust, strategy and implementation approach, is part of government's commitment to implementing the outcomes of the Growth and Development Summit (June 2003).

### 3.2.2 Links with Macro Economic Policy.

Government is committed to reducing unemployment and poverty by half in the second decade of democracy. This requires an economic growth rate of around 4.5 per cent between 2005 and 2009 and an average rate of about 6 per cent between 2010 and 2014. Much has been set in place at the macro economic level to achieve this. Although there is still work to be done at the national level, far greater challenges need to be addressed at the local level.

### 3.2.3 Enabling the environment.

The Industrial Policy process indicates that many of South Africa's economic problems and potential solutions lie in the area of microeconomics. Government is challenged in both the targeting and the managing of micro-economic initiatives. There is a tendency for these either to be mismanaged, waste resources or be hijacked by specific interest groups. The response to this challenge is to use resources to create conditions, which stimulates and enables the general environment in which business is done. Where specific initiatives are required, these should be designed to favour enterprises and social programmes that can demonstrate a clear and unambiguous focus on growth. The framework document shows how these principles can underpin government's approach to economic development at the local level.

### 3.2.4 An improved understanding of challenges.

There has been a rapid evolution of understanding of the nature and dynamics of South Africa's economy and society. The country is currently poised to create an economic democracy securing the political democracy that was built over the past decade.

President Mbeki's statement in 2003 acknowledging that Government recognised South Africa as a 'dual economy'<sup>9</sup> initiated new insights. At the time, the President expressed a wish that a single global national economy, the first economy, might absorb those millions (towards half the adult population) who are presently economically trapped in the non-functioning local township and rural marginalised economies of the Second Economy. The picture he used then to illustrate that understanding was that of a double storey house.

#### Box 1. The Dual Economy as a Double Storey House

President Mbeki has presented a picture of the First and the Second Economies as a double storey house. In the top floor are the rich, living well. Stuck in the bottom floor, with no ladders to access the top floor, are the majority of South Africans who are poor. This depiction of the 'first' and the 'second' economy calls for investment in education, skills and in eco-

**The State will be more vigorous in creating an enabling environment for individuals, businesses and communities to organise themselves, take control of their destiny and work towards prosperity.**

conomic infrastructure creating the ladders the poor need to join the rich in the top floor.

With the persistence of the Second Economy, two problems have emerged concerning the double storey house analogy and its solutions. The 'global first economy' that provides for the rich on the top floor has not provided employment for all. There is no employment 'highway' to the top floor for all South Africans except in the very long run, if at all. The modern 'global first economy' of South Africa has been growing but growth mainly rewards capital and international corporations and returns insufficient reward to labour to dismantle the second economy. This 'growth' is seen in rising tax revenues. There is concern over rapidly increasing social grants to the poor that help with consumption but do little to sustain local economic growth amidst crime and the persistence of 'dualism'.

The global and marginalised version of the 'dual' economy starts from the fact that the bottom floor of the two-storey economy is best described as the marginalised, non-working economies of the old 'black' areas, the townships and rural areas, where dependence on the global first economy for jobs, goods and services remains almost total. Most money does not stay to work in these poor areas. It is spent back into 'global first economy' of South Africa almost immediately. There is a substantial and rapid historical opportunity to raise the local income multiplier (cash circulation) in the bottom floor of the economy three times or so with economic rights' programming that rewards local mobilisation and organisation by communities with known resources for agreed public purposes.

The dual economy model requires a set of policies and programmes that address the non-functioning nature of the marginalised local Second Economies. It is only once the communities in the marginalised areas become economically active

that national economic growth can rise to the point where the first economy can begin to absorb these local marginalised economies.

### 3.2.5 Key questions in policy.

In recognition of a clearer understanding of these challenges, a shift to a distinct set of policy responses has been called for by the, "Towards Ten years of Freedom" review. It posed two overall questions<sup>10</sup>: -

- Has the Government achieved its policy objectives?
- Are these the appropriate objectives?

The review stated "the advances made in the First Decade by far supersede the weaknesses. Yet, if all the indicators were to continue along the same trajectory, especially in respect of the dynamic of economic inclusion and exclusion, South Africa could soon reach a point where the negatives start to overwhelm the positives. This could precipitate a vicious cycle of decline in all spheres". It goes on to call for "**a major intervention to consolidate democracy and to integrate citizens as beneficiaries of a growing economy**". This will require "a framework defining a shared destiny"<sup>11</sup>.

### 3.2.6 Addressing Inequality.

The 2005 Report on the World Social Situation, (the Inequality Predicament) reinforces the concerns of the review. It sounds an alarm over persistent and deepening inequality worldwide, focusing on the chasm between the formal and informal economies, the widening gap between skilled and unskilled workers, the growing disparities in health, education and opportunities for social, economic and political participation<sup>12</sup>. It stresses that issues of equity and inequality have acquired such importance nowadays that it becomes difficult to strengthen the development agenda without first addressing

**Government investment across the space economy must be guided by the principles contained in the National Spatial Development Perspective (NSDP). This means that whilst investment in basic infrastructure and services should occur across the board, when it comes to economic fixed capital formation, limited resources should be applied strategically and investment should go into areas that will yield the highest impact in terms of economic output, employment creation and poverty reduction.**

10 "Towards Ten Years of Freedom - Progress in the First Decade - Challenges of the Second Decade", SA Government, 2003  
11 However, the Review does not propose how this should be done. Ibid, pp. 101 and 102  
12 UN Department of Economic and Social Affairs, August 2005.

the segmentation of society that, among other reasons, rising levels of inequality have produced.

### 3.3 The National Space Economy

#### 3.3.1 Market Failure.

By and large the market has yet failed to sufficiently stimulate local economies in many parts of South Africa, even where there is considerable economic potential and consumer demand. Many of these parts of the country were established under an apartheid framework that countered and distorted market logic. Where Government since 1994 has tried to correct market and apartheid legacy distortions, it has had only partial success. This limited success has been due to a fragmented and piece-meal approach, unsupported by a shared understanding and vision across government and social actors of the needs and potentials of different local economies. Government economic sector support programmes also failed to reach communities on a sufficiently wide scale and on a sustainable basis.

South Africa is characterised by a hierarchy of three dominant economic and human settlement spaces:

- Metropolitan Areas and Large Cities and Towns;
- Declining Cities and Towns; and
- Rural Nodal Areas.

#### 3.3.2 Guiding Government Investment.

Government investment across the space economy must be guided by the principles contained in the National Spatial Development Perspective (NSDP). This means that whilst investment in basic infrastructure and services should occur across the board, when it comes to economic fixed capital formation, limited resources should be applied strategically and investment should go into areas that will yield the highest impact in terms of economic output, employment creation and poverty reduction.

#### 3.3.3 Distribution of Gross Value added.

In 2004, twenty (20) of the Fifty-two (52) municipal regions accounted for 82.8% of the country's Gross Value Added (GVA). Gauteng alone accounted for over 40% of GVA. This demonstrates the concentration of economic activity in South Africa. Yet, none of these areas are growing at levels above 6% per year. In fact, only eight (8) areas grew above the national average of 2.5% per year between 1996 and 2003, with Uthungulu (Richards Bay, Empangeni) in KwaZulu-Natal having the highest per year growth rate of 5.8%. Eleven (11) areas grew below the national average over this time period and one (1) area experienced negative growth.

What this means is that to accelerate growth, serious attention will have to be given to these 20 regions as they currently account for most of the economic activity and have the best chance of contributing to higher levels of national growth. 57.8% of the population live in these 20 regions as well as 46.1% of the country's poor (people living below the Minimum Living Level).

#### 3.3.4 Concentrating and focusing effort.

By concentrating special efforts in these 20 regions, government has a good chance of addressing national economic growth and poverty reduction. In addition, eleven (11) of these regions experienced high levels of population growth during the period 1996 to 2004 resulting from natural increase and inward-migration. Apart from these 20 regions there are many other areas that are showing signs of growth, whilst others, both high and low contributors to GVA, are in decline for a number of reasons. All these areas require appropriate interventions and investments in accordance with the NSDP.

#### 3.3.5 Challenges of Rural Areas.

Many South Africans reside in rural areas. Often, these areas still suffer from past underdevelopment and the fact that they were sustained previously on non-viable incentives to promote

**The dual economy model requires a set of policies and programmes that address the non-functioning nature of the marginalised local Second Economies.**





the aims of separate development. They will require and deserve special attention. Investments in these areas should be based on a new vision of sustainable rural economies and should focus on innovative employment generation strategies that do not necessarily require large sums of capital. Further focus should be placed on adult basic education and training

aimed at improving literacy and numeracy as a basis for participating in local economic opportunities. Where it is justifiable to invest in critical infrastructure to unlock agricultural potential this should be considered. Beyond government investment, local citizen involvement in economic development and innovation should be vigorously encouraged.

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## Chapter 4

# THE CHALLENGE

### 4.1 Shaping the debate.

In terms of looking forward, there are a number of implementation related considerations, which can shape the direction of LED in South Africa.

The key role which local governments can play in the LED process has been identified by the US Council for Urban Economic Development (CUED) which states that Local Governments are the primary, but not exclusive, institution for LED. Within this context, Local Government has three key roles to play:

- To provide leadership and direction in policy making (by-laws and processes to regulate land in manner that reduces the costs of doing business and maximises the involvement of people in the local economy).
- To administer policy, programme and projects (the core function of any body or structure responsible for LED is to co-ordinate and maximise the impact of programmes and projects with respect to growth and development).
- To be the main initiator of economic development programmes through public spending, regulatory powers, and (in the case of larger municipalities) their promotion of industrial, small business development, social enterprises and cooperatives.

### 4.2 Key challenges in implementation.

Despite this apparent role, as the South African Cities Network (SACN, 2003) indicates, there are key challenges impacting on the ability of local governments to implement LED in South Africa. These are:

- Most cities do not have adequate economic growth strategies in place and therefore are unable to tackle poverty.

- Cities cannot develop local economic strategies in isolation from national economic policy.
- Manufacturing is in long-term decline.
- There is a decline in levels of professional employment.
- Unemployment and low skills levels are major barriers.
- Cities make a key contribution to social and economic life in the country but they are also the greatest concentrations of poverty.

Despite this, the SACN recognise that whilst city authorities cannot influence economic fundamentals, "they can direct the nature of responsiveness of city services, prioritise city infrastructure and lead local economic development partnerships" (SACN, 2004, p. 2). In addition, the SACN argues that cities need to put poverty reduction strategies in place and to develop social safety nets for the vulnerable. Key interventions should include:

- The need to develop long-term economic strategies.
- To directly assist new market entrants.
- To make the city more inclusive.
- To enhance comprehensive service development for implementing the strategies
- To make it more sustainable.
- The need to form city development partnerships.

Smaller municipalities and those with very limited economic potential have a bigger challenge in recognising the importance of good municipal governance and provision of municipal infrastructure and services. Investment and employment creation initiatives will have to be more strongly examined for viability and feasibility.

### 4.3 Focus of the Framework.

In addressing these challenges and ensuring a coordinated approach to optimising potential of all areas outside of the narrow local interests alone, the focus of this framework is upon:

- Improving the competitiveness of the 52 District and Metropolitan municipal regions in South Africa by providing an approach to developing local economies with the participation of all relevant stakeholders;



- Rendering economic growth compatible with social equity and safeguarding the environment since human and natural resources are the backbone of sustainable development;
- What the state, (with all its organs and agencies) can do to support and reward citizens who organise locally and operate in local level partnerships to engage in greater economic activity, spreading economic development in an even manner;
- How the state can be a platform to facilitate the inclusion of all to participate in the economy. This would include rewarding and enabling citizens who form organised communities in response to social and economic rights' programming.

**This framework does not dictate what should happen in different municipalities but focuses on what the state can do to support local leaders, communities, businesses, NGOs, organised labour, and other stakeholders to realise their own and their collective objectives**

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#### 4.4 Role of the State.

The state's role is to assist and to create the conditions for local action to emerge and grow. This framework does not dictate what should happen in different municipalities but focuses on what the state can do to support local leaders, communities, businesses, NGOs, organised labour, and other stakeholders to realise their own and their collective objectives. It emphasises the need for local people to work together with each other and with external role players to improve their lives. The state should play the role of facilitator, net-worker and monitor. It should be the supporter of internationalisation, and arbitrate and keep a balance between weaker and stronger local capacities. National policy has moved considerably towards the notion of a 'developmental state'. This move signals a frustration with the presumption that markets are always perfect, that government must be minimalist, and that privately led growth will 'trickle down' and produce 'development' for all. In a dynamic way and as different conditions at different times dictate it will be an ongoing balancing act to determine the appropriate level and intensity of government involvement and intervention in the economy at all levels.

## Chapter 5

# VISION FOR LOCAL ECONOMIES

### 5.1 Overview

Government's Vision for local economies is as follows:

**"Robust and inclusive local economies exploiting local opportunities, real potential and competitive advantages, addressing local needs and contributing to national development objectives."**

These local economies show strength, inclusiveness and sustainability. They support the growth and development of local employment, income and assets, overcoming constraints and competition to capitalise on opportunities. They generate:

- Intensive trade;
- The mixing of people, capital and natural resources;
- Capture social, cultural, recreational, sports and tourism experiences.

### 5.2 Characteristics of local economies

Functional local economies change and respond to new circumstances, consumer preferences and styles and product innovations. The active involvement and participation of residents in municipal affairs is a hallmark of robust and inclusive local economies, characterised as follows:

- **The people** in these local economies, the citizens/communities of these local areas, are resourceful, skilled and able to take full advantage of economic opportunities. They are innovative and able to participate in and/or establish, run and grow thriving enterprises. They produce locally made and branded products for the domestic and international market that are of high quality and appeal to the needs of different consumers. They develop solutions and products that are affordable and meet the needs of poorer communities;
- **Their leaders** inspire confidence in the local economy and are able to mobilize resources for the advantage of local communities. They also make, manage and imple-

ment economic development strategies that are participatory, realistic, feasible and viable, yet creative, innovative and visionary in order to unleash potentials and grasp development opportunities. They work together with national and provincial government and development agencies to best position their local economies in the global context on an on-going basis;

- **The workforce** of these economies is well capacitated, appropriately skilled and appropriately remunerated. They provide a competitive edge for the businesses and industries functioning in the local area and serve as an attraction for new businesses and industries. They provide a constant and reliable flow of skills in pleasant and enjoyable working environments;
- **The assets** (natural, physical, financial, human and social capital) of these local economies, including the local people, leadership and workforce are harnessed for the benefit of local economic development. The harnessing of these assets and their proper use and management serves as a lever for attracting and securing greater private sector investment and finances for the development of the local area. The unique natural and other features of these local areas are used to maximise specific advantages of location;
- These robust and inclusive local economies are part of local areas that provide a **high quality of life experience** for local residents, visitors and investors. The physical infrastructure, public amenities and facilities and public services are reliable, easily accessible, efficient, and enable effective social and economic transactions. Local residents are part of reliable social safety nets that enable them to develop their skills and potentials so that they participate fully in the local economy;
- **The natural environment, public spaces, settlements and buildings are attractive, appealing and desirable.** They inspire confidence in the local economy and the creation and maintenance of these is in itself a constant source of work for local people;
- **Robust and inclusive local economies are networked into local, provincial, national, continental and global economic dynamics and opportunities.**

These local economies are linked up with external support initiatives, projects and programmes. They have reliable, fast and easy access to information and their people and enterprises take full advantage of incentives, and support offered by government and other development agencies in different economic sectors;

- These economies have a range of **functioning partnerships** at different levels and between different parties that enhance the ability of local role players to take full advantage of economic opportunities. They also contain economic institutions and systems that provide constant and sustainable support and advocacy networks for local enterprises;
- **The income** earned by local residents is largely spent in **the local area**. This generates revenue for municipalities that enables the appropriate and sustained provision of infrastructure and services. The financial viability of municipalities is thus enhanced.

### 5.3 Comparative Advantage and Competitiveness of Localities.

Each local economy has its own unique strengths – is aware of **its own comparative advantage** - and each contributes to national growth and development in a special way. The level, nature and form of the resilience and vibrancy of each local economy depend on the specific conditions, circumstances and potential of that area. Each area has its own vision, strategies and implementation methods borne out of local experience. Spatial development and growth and development plans support the exploitation of this unique comparative advantage.

### 5.4 Unique Challenges

In each local area there are unique challenges linked to land utilisation, infrastructure and service backlogs, maintenance of infrastructure, protecting and maintaining biodiversity and uplifting the skills and capabilities of people. To bring about sustainable economic development and to maximise the potential of the local area it is necessary to ensure linkages to adjacent local economic spaces. The sum of the municipal areas makes up a province. The Provincial Growth and Development Strategies must assist to point to the necessary linkages between and among local economic spaces.

## Chapter 6

# POLICY THRUST

### 6.1 Competitiveness

Government's policy thrust is to increase investment by building the competitiveness of the 52 municipal regions. This competitiveness is driven by involved and organised communities and enterprises engaged increasingly in manufacture and distribution of sustainable, ecological and environmentally friendly products and services.

#### 6.1.2 Leadership and Governance

First, there should be sound Public Sector Leadership and Governance. This includes a focus on local governance of the 52 regions as follows:

- effective intergovernmental coordination,
- infrastructure investment capability,
- enterprise support,
- service development,
- territorial marketing,
- continued skills development and
- identification and promotion of competitive advantage
- customized sectors and clusters, and innovation.

To achieve this, the state should actively align the impact of monetary, labour and industrial policies to develop and sustain the comparative advantage and the competitiveness of the 52 regions

#### 6.1.3 Investing in Communities

Second, the State should partner with communities through Sustainable Developmental Community Investment Programmes in order to boost circulation of local income and community organization in these 52 regions.

### 6.2 Public Sector Leadership and Governance

The electoral mandate of government is to halve poverty and unemployment by 2014. This can only be achieved if the pace of inclusive and sustainable economic growth in the country can be accelerated.

In order to accelerate growth, the 52 District and Metropolitan municipal regions in South Africa together with their cities, towns and rural bases have to contribute optimally to national output. This optimisation can only be achieved in a sustainable way if strategies and interventions within and across these regions are based on a thorough understanding of the characteristics, economic potential and human resources of each region.

The private sector, the cooperative sector consisting of formal and informal, social enterprises, as well as the income generating community projects and survival businesses in the informal sector, that operates in these municipal regions are the engines of economic growth. Their existence and ability to produce competitively and generate greater levels of income and employment, is dependent on an active State role in generating the appropriate and necessary conditions, stimulus and governance efficiencies and in constantly monitoring the results.

The State also has to play an active role in broadening the participation of the mass of South Africans in the productive private sector and in quality jobs, and in the creation of new enterprises. In many municipal regions, these enterprises either do not exist or operate at very basic levels.

This active developmental state in municipal regions must administer pricing with respect to tariffs charged for services in a manner that allows for basic service provision to the poor and a minimum level of basic needs. The core business of municipalities must ensure improved revenue streams in a manner that broadens the reach and range of services and a redistribution of surpluses.

#### 6.2.1 Primary focus of Municipalities

In promoting the local economy, the primary focus of municipalities should be upon the:

- provision of infrastructure and quality and reliable services,
- managing spatial policies,
- land-use regulation and development applications,
- managing service tariff policies,
- managing a progressive property tax system
- Marketing the territory.

**The electoral mandate of government is to halve poverty and unemployment by 2014**

Alongside the above, is the important aspect of regulating and implementing the compliance of land use and health and environmental regulations. There is a need to ensure that these processes of regulation are administered in a way that does not impair business start-up and growth and inhibit job creation. The dplg will encourage municipalities to use regulatory impact assessment tools in measuring the balance between the need for regulation and competitiveness.

Beyond this, municipalities can actively provide support to local enterprises by linking up with the relevant provincial and national agencies in the State tasked with this responsibility in different economic sectors.

### 6.2.2 Integration of Delivery

Infrastructure development, service delivery, municipal financial viability and local economic development are not mutually exclusive concepts. They are interdependent and government (municipalities in particular) should develop strategies and management practices that take on a holistic and integrated approach. Coordinated structural planning within the context of the IDP process offers the potential to link local economies and accelerate growth directly by public-private sector investment and through facilitating the strategic development of competitive advantage. To facilitate this, more rigorous long range planning through cooperative governance (Intergovernmental Relations Framework Act, 2005) and in accordance with national spatial planning guidelines is required (National Spatial Development Perspective) Long range planning and research should be the basis for understanding local economies better, aligning economic strategies across government, building the competitiveness of the 52 municipal regions, and in case of border municipalities, improving linkages with neighbouring countries.

**Infrastructure development, service delivery, municipal financial viability and local economic development are not mutually exclusive concepts. They are interdependent and government (municipalities in particular) should develop strategies and management practices that take on a holistic and integrated approach.**

The basis of structural funding is public sector fixed investment across the space economy in harmony with AGSI-SA and NSDP as drivers for accelerating economic growth in South Africa to levels above 6% per annum. Whilst our country is suitably poised for higher levels of investment from a macro-economic perspective, greatly improved infrastructure investment capability at all levels of government is necessary. This capability centres on long-term structural planning, project and contract management, operational and maintenance skills.

## 6.3 Sustainable Developmental Community Investment

### 6.3.1 Introduction

South Africa will need to move beyond these steps if local economies are to function more effectively. Serious attention will have to be placed on innovative ways of boosting the circulation of income in local economies.

"We are faced with the stubborn reality of unacceptable levels of unemployment and poverty... due attention needs to be given to the second economy.... All South Africans are invited to 'think outside the box' if we are to tackle unemployment."

*Deputy President, Phumzile Mlambo-Ngcuka, NEDLAC, August. 2005.*

### 6.3.2 Mobilising Communities

Some 30 million citizens live in the marginalised so-called "Second Economy areas". If they organise, in response to 'offers' of programme support, at street, neighbourhood, and village level into community co-operatives and social enterprises to work on developing sustainable livelihoods and

meaningful productive activity be it in savings clubs or buying clubs or the EPWP, the uptake of the unemployed into the economy will improve. It is possible to consider a link to wards and services through sustainable community investment programming in each municipality. Each ward will encourage the development of trusts, focusing public sector investment, through a process of local dialogue and consensus into key areas of need identified by the community and largely delivered through community trusts, social and cooperative enterprises.

This process has the potential to serve as a critical instrument for the realisation of a range of key recent government initiatives, including the:

- Micro Economic Reform Strategy,
- National Spatial Development Perspective,
- Extended Public Works Programme,
- Innovative use of social development grants,
- Municipal Infrastructure Grant
- Integrated Manufacturing Strategy.

In addition, it gives life to the purposes of well-established programmes such as the Urban Renewal Programme (URP) and the Integrated Sustainable Rural development Programme (ISRDP).

### 6.3.3 Improving the multiplier effect

Annually, government spends billions of rand a year on its programmes in marginalised areas, but a low income multiplier of only 1.3 stimulates little in the way of development. In the first economy, this income multiplier is between 7 and 12. If the local income multiplier in marginalised areas can be raised to about 4.0, the economic activity derived from government expenditure could be raised substantially, transforming the areas and allowing them to contribute meaningfully to the national economy.

**If the local income multiplier in marginalised areas can be raised to about 4.0, the economic activity derived from government expenditure could be raised substantially, transforming the areas and allowing them to contribute meaningfully to the national economy.**

### 6.3.4 Government as partner to communities

Government, in turn, to bring LED into operation must 'organise' itself to partner citizens in programmes that confer rights to pursue public/community goals under programme rules and with programme resources that are known in advance. Using these 'programme offers' citizens mobilise and organise against known programme opportunities that engage them directly and enable them to become major players in local economic development and service delivery as partners of government.

To do this, citizens have to organise themselves to respond to each known programme purpose. These might include child, investment, periodic markets, health and other 'rights' programmes.

The above has profound implication for the way LED is organised. It adds a new cultural and organisational thrust to what the state presently does for and occasionally with citizens under the term 'delivery'. For a start, it invites some 15 million adults who live in the marginalised second economy to organise at street, neighbourhood and village to become community members of 'Rights' programmes.

### 6.3.5 A Programme of Sustainable Community Development

A new Sustainable Developmental Community Investment Programme (SDCIP) should become an integral part of government's strategy to stimulate local economies so that there is a synergistic balance between State and Community driven LED: one that places 'on offer' community membership of programmes that confer rights and resources, in return for responsibility and accountability, and even liability, to citizens wishing to mobilise,



organise and become active themselves by joining as community programme members.

This SDCIP is not about small community economic develop-

ment projects in the traditional sense. It concerns linking communities into the mainstream of the economy as critical players through their own organisation, supported by innovative redesign of methods of delivering government expenditure.

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## Chapter 7

**GOVERNMENT'S STRATEGY****7.1 Gearing up for increased investment.**

A credible approach to LED must invest in the capacity of municipalities to manage in a way that inspires confidence in both constituents and the private sector.

It must also provide signposting for domestic and external investors, indicating on the basis of objective and empirical analysis, where opportunities for growth lie. This signposting will need to be based on a critical assessment of local comparative analysis, a description of value chains for showing where public and private sector interventions can lock into unexploited opportunity and where such investment will stimulate both growth and employment.

Development is also needed in business support services if these are to achieve their objective of generating investment in local communities by local entrepreneurs and the financial institutions that support them. While these need to extend their geographical coverage, a far greater need is to invest in approaches and techniques to make services less supply driven and more responsive to need, especially where the emerging black entrepreneur is concerned.

Finally, it needs to be recognised that in large areas of the country many communities have very limited capacity to contribute in a conventional manner to the alleviation of poverty in general and to solve their own immediate socio economic challenges. Support is needed to enable such communities, groups and individuals to invest their own skills and energies into economic development. To facilitate this, community investment programmes are required that systematically build up community confidence and competence

**7.2 The Focus of Government**

Government will therefore need to focus on four key strategies over the next five years to move closer to the vision of robust and inclusive local economies. These four strategic interventions are interrelated:

- a Improve good governance, service delivery, public and market confidence in municipalities.
- b Spatial development analysis and planning exploiting the comparative advantage and competitiveness of the 52 municipal regions.
- c Intensify Enterprise support and business infrastructure development in local areas.
- d Introduce sustainable developmental community investment programming

The above provide a basis for stimulating additional investment in local economies as a basis for sustainable growth

**7.3 Strategy 1: Improve good governance, service delivery, public and market confidence in municipalities**

Improving confidence in municipalities is a critical first step in attracting investment and building loyalty to local areas. The way local areas are governed by municipalities is a key determinant of local economic development. Allied to this is the marketing of localities. This must be in co-ordination with national and provincial programmes.

Municipalities will focus on providing good local governance, reliable and effective services and sound administration. The requirements for this are clearly spelt out in policy and legislation and the local government system is evolving in practice. Recognising that everything a municipality does impact on the local economy it will be

necessary to pay particular attention to the following:

- i Basic financial management, project management linked to the provision of infrastructure and services in a financially sustainable manner.
- ii Provision and maintenance of quality and reliable infrastructure and services
- iii Establishment of clear and well supported spatial policies and land-use management systems with particular emphasis on integrating small and informal traders in business zones.

- iv Clear and unambiguous policies for economic development at the local level based on market realities
- v Speedy and effective handling of development applications for business establishment, property development, and township establishment.
- vi Sound and strategic property rates and service tariff policies.
- vii Proper community care/interface, billing and revenue collection systems.
- viii Communication and marketing of the services and regulations in an inclusive manner

Especially in the metropolitan municipalities and secondary cities, greater attention should be paid to creating more efficient spaces that integrate land and housing (especially social and rental accommodation), trade and public transport systems.

### Main Actions

#### **i) Intensify support to municipalities under Project Consolidate**

The dplg will facilitate the deployment of support personnel from within government, State Owned Enterprises, and the private sector to render infrastructure investment, financial management and other technical support to municipalities. This will complement the Project Management Units established under the Municipal Infrastructure Grant (MIG) programme.

The dplg will develop LED toolkits and capacity programmes for municipalities together with key stakeholders and partners.

#### **ii) Monitor and Report on Implementation of the Municipal Finance Management Act (MFMA) and Property Rates Act.**

Support to municipalities to comply with the provisions of the MFMA will continue and be deepened. National Treasury and dplg will undertake this task. Dplg will roll out an implementation programme for the Property Rates Act.

Public reports should be prepared for Parliament as part of established reporting procedures. These reports should reflect on the extent to which improvements are made in transparent, accountable and effective local governance. They should also establish whether revenue generation is being enhanced and how property rating is addressing financial viability and transformation.

#### **iii) Assist municipalities to finalise appropriate spatial policies in their IDPs that are linked to a municipal-wide land-use management system.**

The IDP Hearings highlighted on-going challenges with respect to spatial development frameworks and the establishment and enforcement by municipalities of land-use management systems.

This will be resolved through a focused capacity programme and tighter monitoring of built environment outcomes in municipalities. Specific emphasis will be placed on appropriate land-use policies that encourage the integration of informal, micro and small enterprises in mixed business zones.

Dplg will develop a support programme as part of enhancing the functionality of the IDP instrument as a truly integrated plan for government in different municipal areas.

Innovative spatial strategies that link special demarcated areas such as city improvement districts, industrial development zones, and inner city regeneration to local and national incentives such as the urban development zone tax incentives and others should be pursued.

#### **iv) Improve infrastructure investment and intergovernmental coordination**

The performance of a local economy is dependent both on good local governance as well as the inputs of other spheres of government in local spaces. Coordinated actions focused on ratcheting up infrastructure investment are critical in creating a conducive local environment for business, trade and investment.

## v) Support Municipal- Economic Forums

It is essential that there is proper communication and regular contact between municipalities and organised business and labour. This enables all sides to develop their understanding of the dynamics in the local economy and what is required to maintain competitiveness and social cohesion. Participation by Labour and civil society should be encouraged.

It is also important for municipalities to be confident in understanding and dealing with business and labour representatives so that negotiations and agreements that are visionary and responsible are concluded.

Dplg will work with NEDLAC on programmes that sensitise municipalities, business and labour to each other's needs and interests. Ways and means of building and supporting solid local level forums will be discussed and implemented.

## 7.4 Strategy 2: Spatial development analysis and planning exploiting the comparative advantage and competitiveness of the 52 municipal regions

Accelerated growth in South Africa will depend on developing a dynamically performing economy – one in which all areas across the national space economy optimise their contribution to national product.

Analysis of the space economy discussed shows that different spatial areas require different institutional responses across national, provincial and local government to their economic development challenges.

Resources must be allocated by government to achieve an optimal yield and all these responses must be guided by the shared vision of accelerated growth.

The aim should be to heighten growth in those areas growing above the national average and in the sluggish areas, and to arrest the decline of the negative growth areas by putting in place the conditions for turnaround that would point to minimum critical infrastructure investment.

Even the best performing areas are not performing well enough to reach and go beyond the 6% growth target. It is necessary therefore to get areas used to the idea of competing amongst themselves and to cooperate at the same time. This will strengthen the collective national economy by getting the best out of each area and ensuring that it is not just the endowments of an area or historical privileges that count, but the continuous ability of areas to provide strategic leadership, good governance and sound public administration; and to position themselves competitively in the national and global economy. Such competition can occur through industrial recruitment, place marketing, provision of quality and affordable services and various incentives including the management and regulation of land development and property rating systems.

The critical capacity required is the ability across government to understand local economies better and to identify opportunities for growth. This includes a range of possibilities to improve downstream beneficiation, linkage between areas in terms of inputs and manufactured product, and possibilities to enhance the local content in high value added finished products. For example, it may be possible that mining areas currently in decline are able to supply the raw materials for the automobile industry that currently comes from overseas.

A better understanding of the opportunities and constraints in local economies should inform a more balanced development path that overcomes the "enclave" problem where economic opportunities are dispersed in a concentrated fashion across

the country. This concentration is often at the expense of not appreciating opportunities elsewhere that can be unleashed through justifiable public investments guided by the national spatial planning principles and guidelines.

In many cases economic opportunities can be decentralised in close proximity to production sites or the major city centers where many South Africans live.

The 52 regions should be packaged as investment spaces based on their real production and business opportunities that have to be mapped out in detail.

**A better understanding of the opportunities and constraints in local economies should inform a more balanced development path that overcomes the "enclave" problem where economic opportunities are dispersed in a concentrated fashion across the country.**

This packaging must be based on the PGDSs in as far as they truly internalise the NSDP approach. The LED strategies of municipalities linked to the IDPs should over time become the basis for this packaging. Many municipalities are still finding it difficult to develop effective LED strategies.

Significant progress has however already been made with respect to this strategy as part of the IDP/PGDS/NSDP alignment activity in Government's Programme of Action. Cabinet adopted the alignment report in February 2005 that guides how a common vision and purpose for the 52 municipal regions should be forged across government.

The NSDP is being updated using a unit of analysis that corresponds with municipal areas. The NSDP assesses economic potential in different categories for different areas. PGDS guidelines were developed and assessments of these strategies were finalised.

## Main Actions

### i) Undertake analysis of the 52 municipal economies

A rigorous analysis of each of the 52 district and metropolitan municipal regions will ensure that there is a proper understanding across government of the needs and potentials of these areas and how best each area can position itself in the national economy.

The national alignment task team (IDP/PGDS/NSDP) that includes the Presidency, dplg, the Dti and Land Affairs, will facilitate this process in conjunction with the key stakeholders. A critical mass of collaboration between Premier's offices, Provincial Economic Affairs departments, provincial development agencies, and IDP and LED managers in municipalities will need to be constituted for this effort.

All stakeholders in the local economy must be involved in this process, and the IDP and LED managers must ensure that this occurs. This meeting between spatial and sectoral policies and perspectives, and the IDPs is a vital part of the verification process, as well as the guarantee that strategies and interventions adopted are optimal at local level and are socially, financially and technically sustained and supported. This process of analysis should be based upon empirical evidence, and there is a need to ensure that such data is readily available and that capacity exists at provincial and municipal level to use such data.

This process should lead to the identification of sectors for priority development based on local competitive advantage. The main approach used should include value chain analysis, an approach with the potential to lock the integration of potential interventions into the national economy

Under Project Consolidate experts are already assisting municipalities to elaborate and implement effective LED strategies and actions. Dplg is coordinating this work and will support the building of dedicated LED capacity in municipalities through the placement of mentors and support personnel. A comprehensive support programme under the EU funded projects in KwaZulu-Natal, Limpopo and Eastern Cape is being coordinated to maximise the impact of LED support in these three provinces.

### ii) Target priority growth sectors

Based on the analysis of each of the 52 regions, growth sectors relevant to each area should be targeted. This means customising national support in the form of incentives, funding and technical input for these prioritised sectors related to the conditions of each local space. Careful attention should be given to the encouragement of the formation of clusters, creating economic concentration with detailed mapping of product value chains so that beneficiation and upward and downward industry linkages are maximised.

The dti working closely with provinces and municipalities will play a key role in determining and supporting targeted growth sectors in localities.

### iii) Build capability for a knowledge economy and innovation

Identify in each region, if necessary, institutions that can promote research and development and entrepreneurial culture suitable for the needs of a knowledge economy. Continuous emphasis on innovation assures maintaining competitiveness and avoids becoming marginalised. Collaboration between tertiary institutions, research and development organisations, enterprises and government should be enhanced through local networks, special industrial parks, learning programmes and international linkages.

Excellence in national monitoring, learning and research operated through the National LED Forum convened by dplg, should play a lead role in promoting innovation and supporting collaboration at all levels for the knowledge economy. A significant element of this will be a process to gather and disseminate innovation and practice in local economic development. These monitoring, learning and research processes, and the institutional framework designed to support them will play a major role in developing capacity to develop local economies in line with this strategic framework.

#### iv) Market the 52 Regions and their Products

While each region should market itself, a national platform for marketing these regions for domestic and foreign investment is critical. This marketing should be coupled with a promotion of the top products and services rendered in these regions that fit the criteria of local production, labour intensity, and relevance of product to environmental protection.

Marketing should move beyond a communication and public relations exercise towards packaging these areas for investment purposes with attention to the relevant detail and information required for decision-making.

This action should be facilitated by dplg working closely with the DTI, provinces and municipalities.

#### v) Establish Innovative Funding Instruments

The establishment of special funding instruments that promote regional/local economic development should be explored.

The dti has a number of programmes to support industrial development. These should be utilised and reviewed where necessary in such a way so that they complement the identified competitive advantages of different areas.

**Economic infrastructure investment funding is critical for stimulating municipal economies. The “E” component of the Municipal Infrastructure Grant (MIG) should be utilised more effectively for this purpose**

Economic infrastructure investment funding is critical for stimulating municipal economies. The “E” component of the Municipal Infrastructure Grant (MIG) should be utilised more effectively for this purpose and dplg should develop proposals for increasing the quantum of this component and monitoring its use so that it supports the competitive advantage of the municipal area.

Dplg should also develop proposals for the usage of the “Development” component of the Equitable Share. This component could allow local government to fulfil its policy mandate with respect to creating a conducive environment for economic development.

#### vi) Regulatory impact assessment

Informed by research underway by the Small Business Project and others, municipalities should be provided with a means to evaluating the impact and potentially damaging impact of inappropriate by-laws and regulation on growth and job creation processes.

### 7.5 Strategy 3: Intensify Enterprise support and business infrastructure development in local areas

Enterprise support, or the provision of business development services, exists to improve the quality of small business management. It does this through the provision of business training and advice. Enterprises do not rate training and business counselling high on their list of needs and many have been reluctant to use enterprise support services or business development services (BDS) services, especially where they are expected to meet the cost of provision. This reluctance is in part a result of a lack of critical awareness of the importance of management in business success and of their own weaknesses as managers.

Reluctance to use the BDS services has often been a result of the inappropriate quality of provision of services, especially when supplied by Government on a near monopoly

basis. Those providing such services often have insufficient business experience, and may lack credibility with those in business whom they are paid to assist. Monopoly providers of BDS services have often been criticised by small business associations on the grounds that the funds government provides to help the small business community goes to intermediary suppliers of BDS rather than the business community itself.

Attempts to solve the problems associated with the lack of demand for BDS and the poor quality of provision have often centred on attempting to give the entrepreneur more choice in whom he or she goes to for business advice.

Business development should be a part of the customised sector programmes and monitored. Business development interventions are linked to productivity, skills development, and technology choices. A consolidated approach to business develop should be a total package from government. In this, business development for cooperatives - which has its own particularities – must also be given priority.

Some countries (Peru, Indonesia) have had success with voucher schemes, where entrepreneurs are given a voucher for BDS services which they can take to the BDS supplier of their choice. Vouchers are worth a fixed amount (say ZAR 1,200) and are redeemed by Government at face value from the BDS provider once the services have been delivered. Giving entrepreneurs a choice improves the quality of BDS and drives out the weaker providers. Voucher schemes are challenging to manage, and if managed badly are open to corruption.

Nevertheless another critical factor is to stimulate, through pro-active actions, entrepreneurs to use and learn how to use the BDS (action known as stimulation of demand).

Where BDS is provided on a market or quasi market basis, BDS providers tend to become specialists, finding niche markets in specific response to the desires, choices and needs of small business owners. Examples of BDS services developed through this sectoral approach are:

- Food Specific Business Skills
- Clothing Sector BDS
- Services aimed to help businesses in areas of economic decline

- Developing Childcare businesses
- Waste management, value added waste and recycling businesses
- Rejuvenating Retailers
- Helping people from the creative professions to establish businesses
- Income generation for homeless people
- Assisting people to establish themselves as professional football coaches
- Assisting women to establish businesses in the male dominated construction industry.

The lesson seems to be that if given a choice, entrepreneurs like to acquire their business skills not only from people with business experience, but who in addition also have experience of the market sector they wish to engage in. This approach may positively inform the creation of sustainable BDS services where the entrepreneur is more prepared to pay a share of the costs. With DTI, the private sector and NGO providers of business development services dplg will work to create an enterprise support market that produces more attractive products for the business community and a more sustainable enterprise support market.

## Main Actions

### i) **Implement the new small business development strategy.**

The Dti has established the Small Enterprise Development Agency (SEDA). This should be the key vehicle for localised enterprise support. This should be complemented with a network of sector specific business support service providers. Best ways of achieving this should be explored by SEDA with the aim of ensuring that access to relevant support is broadened and localised.

It is critical that municipalities develop strategic relationships with SEDA offices and provide necessary information to their communities about available support services. It is equally critical that SEDA utilising the municipal libraries and information provision to extend the reach and range of its services. SEDA's services should be perceived to be locally driven and locally owned.

## ii) Improve Access to Finance

The key market failures for SMME financing have been identified as:

- Limited availability of risk capital for start up and early stage businesses
- Insufficient lending activity in poorer province and township areas
- Market preference for high loan sizes (above R250,000 per loan)
- High cost of finance facilities

Much is going on in this area in South Africa, (Khula, Umsobomvu Youth Fund, Apex Fund, Regional Development Banks and NGOs running micro-finance programmes). Yet access to finance remains a challenge for many start-ups and for enterprises wishing to expand. There is need to consolidate state approaches and to ensure that state resources fall under a common strategic perspective addressing the challenges identified above.

One additional approach that needs consideration is opening dialogue with the commercial banks and Venture Capital companies. DFID has had some success in this arena with FINMARK. There is also a need to assess the potential that the Banking Charter may have on SMME finance and to consider implications of the Charter for the second economy.

Commercial banks are represented in many communities and have a power and concentration in South Africa which is unique in emerging economies. If banks and venture capital companies can be encouraged to lend more into the small end of the second economy many of the challenges facing small entrepreneurs can be resolved. Banks in South Africa traditionally see two problems with this market- high risk, and high transaction costs, both of which make the market unprofitable and unattractive. These challenges are technical in nature, and given appropriate development inputs can be resolved.

The dti and dplg might, through agencies such as the Banking Council, lend their weight and support to getting commercial banks into the second economy.

BDS are not sufficient if socio-economic sustainable territorial development has to be supported.

A comprehensive service system is needed, capable of coordinating:

- Training
- BDS
- Support to association and local network building
- Support to social inclusion
- Territorial Marketing
- Monitoring and evaluation
- Support to internationalisation and international partnerships
- Innovation
- Project development and finance

The optimum service area for BDS should be identified according to economy of scale, effectiveness and efficiency, and taking into account the necessary critical mass of local resources without neglecting the participatory approach. In South Africa, the areas covered by District Municipalities and Metros are indicated as the best-suited areas to meet these criteria, always remembering, however, that local and regional economies do not fit perfectly into institutional boundaries.

## 7.6 Strategy 4: Introduce Sustainable Developmental Community Investment Programming

Sustainable Developmental Community Investment Programming (SDCIP) is about moving beyond project-based community economic development. It is rather a much more empowering approach, utilising innovative instruments to systematically build community competence and capacity.

SDCIP suggests building community, and using a powerful cultural dynamic as the main vehicle and partner for LED together with the resourcing of organised communities to carry out key local functions, provide services and become important productive units. To do this, there needs to be a paradigm shift, a corrective to the dominant 'globalisation' model. A new balance has to be struck between globalisation and 'localisation'. Localisation requires a new set of policies and programmes to exist.



Present policy is moving in that direction but many aspects of implementation remain caught in the 'supply' of objects and services. This means that a large part of official expenditure is not used in a way that partner 'community' and subsequently, the monies spent rarely 'stay to work' in the marginalised poor areas of South Africa.

The statement that business in the second economy can produce locally but cannot sell locally is a truism that explains the reason why many of the traditional LED projects struggle to become sustainable. 'Delivery' and LED is not being used to alter the paucity of local effective demand and to mobilise the vast labour and personal resources of the majority of adults caught in the non-working local economies of this country.

By raising the local income multiplier from around 1.3 to 4.0, government will be taking advantage of a dynamic that can make LED a success. SDCIP provides the "yeast in the local economic bread" to ensure the rapid establishment of an economic democracy, that is 'competent' citizens daily exercising their key economic and social rights. Residents of township and rural areas can deliver some direct and many support services in education, of health and in the investment in local productive resources. They can 'take charge' of aspects of LED and of service delivery as government's partner if the flow of state funding first picks them up as significant development actors. They can build much needed local economic institutions. In this, such activity can help to ensure that spending is circulated locally three times or so more frequently than today. In so doing it will reward local production and increase 'effective local demand' to help to meet the cost of local service and investment needs.

The second decade of democracy has to underwrite the political gains of the recent past with the formation of a working economic democracy<sup>13</sup>. This requires a new set of policies and programmes that address the legacy of the marginalisation of the townships and rural areas. It will have to be driven by social and economic rights exercised daily by citizens, mostly within suitably organised communities that operate as partners of the state, notably of local government.

SDCIP represents a move beyond LED 'delivery'. It begins with the realisation that the supply of objects and services into poor areas when their economic marginalisation means that there is no or little effective local demand with which to buy new local production or to pay for new services.

SDCIP operates to raise the local income multiplier some 300% in the old 'black' rural and township areas that remain highly marginalised and dependent upon the 'global first economy' of South Africa for goods, services and jobs. It is thus a 'Charter for the Second Economy'. This is the quickest way to bring the poor, at least half the population, in from the economic cold where they are effectively economic prisoners of non-working local economies.

The SDCIP in synergy with the other three (3) strategies enables a correction to be made to the main structural fault line of the economic legacy of apartheid and which forms the dual economy of South Africa. It promises to do this by unlocking the potential of all areas of South Africa by assisting all citizens to once again become 'competent'. It promises to do this by providing a highly efficient and effective method to realise the incorporation of all into economic activity and the ownership of local productive assets. In doing so, it rewards state expenditure with:

- 1) high local multipliers and thus high returns via taxation to state expenditure;
- 2) rewarded 'delivery' of services and of social and economic infrastructure that can now be locally afforded, paid for and well used and supported.

The SDCIP uses a powerful localisation device - the formation of local markets. A significant opportunity to close the gap between large companies, government organisation and the second economy is through procurement. SDCIP provides an opportunity to make the public procurement system more accessible to historically disadvantaged individuals. The National Council of Provinces has evaluated the Preferential Procurement Policy Framework Act (PPPFA) and has suggested the realignment of the Act to make it more consistent with the prescripts of BBBEE. To enable SDCIP to achieve its potential,

**A significant opportunity to close the gap between large companies, government organisation and the second economy is through procurement. SDCIP provides an opportunity to make the public procurement system more accessible to historically disadvantaged individuals.**

Government policies and procedures will need to be redesigned to make them more conducive to dealing with community trusts, social enterprises and SMMEs in the marginalised second economy. The preferential policy procurement drive should be written into policy and supported at the highest level, and procurement official should be trained to work with SMME and community suppliers of goods and services.

### Main Actions

The main action that dplg will undertake is to start with exposing SDCIP to decision-makers in the public and private sector, and to communities (ward committees and traditional leaders in particular).

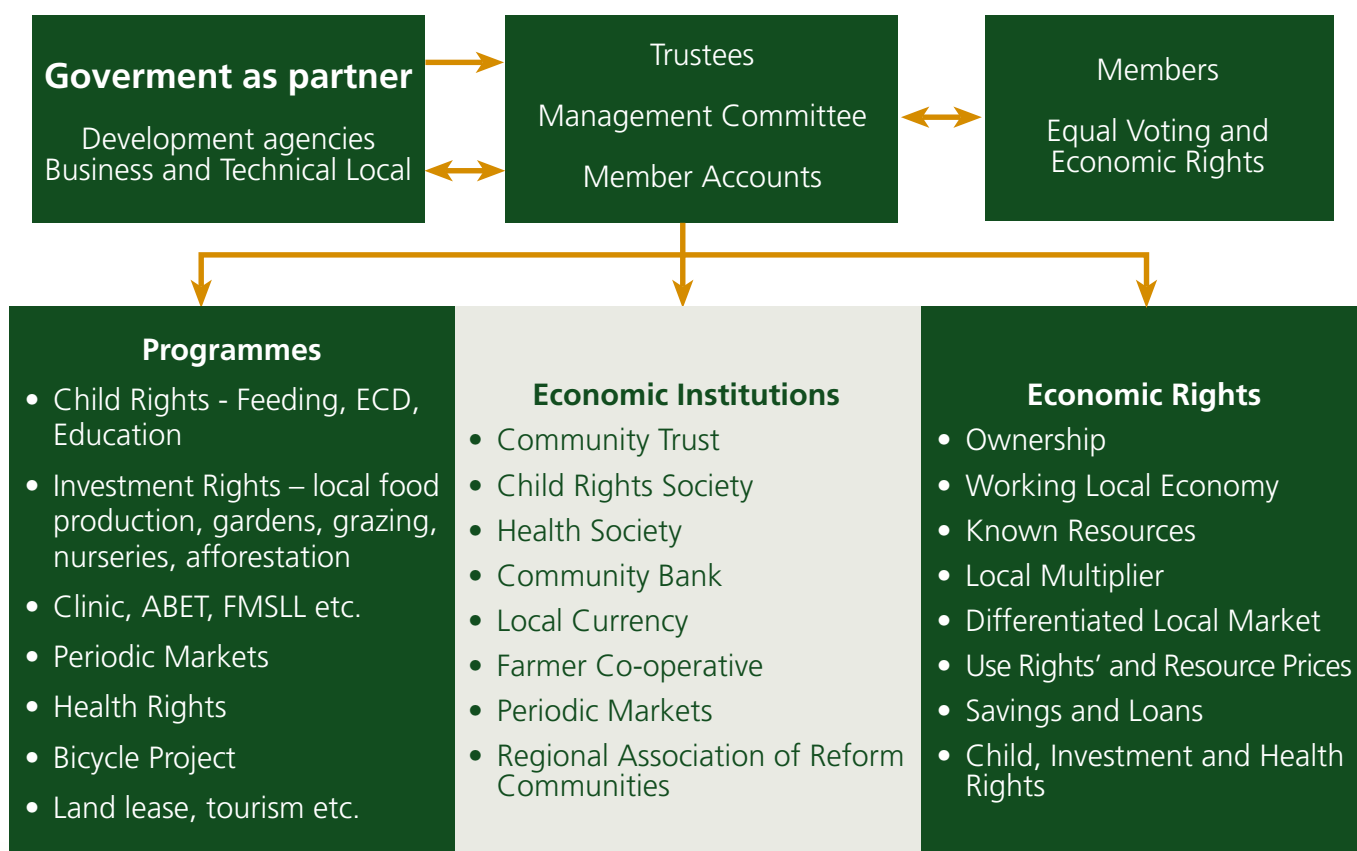
A few SDCIP initiatives have started in South Africa already. Others will emerge from work being piloted in Limpopo Province. Progress should be monitored and lessons learned should be disseminated.

National and provincial departments responsible for policy and funding instruments, as well as municipalities, should be encouraged to review their expenditure processes and adopt a SDCIP approach to complement a focus on sound public service leadership and governance.

Possible techniques and processes illustrating SDCIP can be applications are illustrated in Annex I by way of examples. Sectors in which the techniques and approaches can be applied are as follows:

- **Crafts.** The 500,000 people or so employed in this sector should be introduced to SDCIP
- **Fresh Produce.** There is potential, as already demonstrated by some organisers of community gardens, to produce cash incomes from community gardens, and expanding their scope and co-ordination through the creation of agricultural (producer) and consumer cooperatives.
- **Waste Collection.** Through the use of SDCIP approaches and eliminating the middlemen, incomes of waste collectors can be improved.
- **Street trading.** In 2003, there were 1 million street traders in South Africa. SDCIP offers these traders an opportunity to become more involved in decisions that impact on their livelihoods.
- **Sub-contracted Clothing and Textiles.** Clustering, through SDCIP approaches, offers potential to increase incomes through order sharing in the sector where 55 per cent of the operators are informal
- **Traditional Medicine.** SDCIP can play a role in better regulation and increased support and integration into value chains.

Figure 1 - Example of Community Co-operative





<b>Strategy 1</b>	<b>Strategy 2</b>	<b>Strategy 3</b>	<b>Strategy 4</b>
Improve Market and Public Confidence in Municipalities	Identify and Exploit Competitive Advantage of 52 Municipal regions	Intensify Enterprise Support in local areas	Introduce Community Investment Programming
Intensify support to municipalities under Project Consolidate	Analyse the 52 municipal economies	Implement the new small business development strategy (including promotion and support for cooperatives)	Promote community organisation through development trusts, partnerships, cooperatives, etc.
Monitor and Report on Implementation of MFMA and Property Rates Act.	Target growth sectors and industry clustering		Encourage community or third tier banking
Finalise appropriate spatial policies in IDPs linked to a municipal-wide land-use management system.	Build capability for a knowledge economy	Improve Access to Finance	Improve trading markets and ring market system
Improve infrastructure investment and intergovernmental coordination	Market the 52 Regions and their Products		Improve local multiplier of government spend
Support Municipal-Business Forums	Establish Innovative Funding Instruments		State and Social Actor Capability and Institutional Arrangements

***State and Social Actor Capability and Institutional Arrangements***

## Chapter 8

# IMPLEMENTATION APPROACH AND INSTITUTIONAL ARRANGEMENTS

### 8.1 Introduction

In order to implement the strategy described in this document careful attention has to be given to drivers, institutional arrangements and existing capabilities. All stakeholders from within and outside of Government are invited to contribute to implementing this national strategy. During the course of consulting on this document, the implementation approach will be strengthened with particular and specific commitments and contributions from various role players.

The Minister for Provincial and Local Government will be the political head responsible for the success of this strategy. The Director-General of the Department of Provincial and Local Government will head the implementation of this strategy through the Local Economic Development unit located in the Governance, Policy and Research branch of the Department.

### 8.2 Role of the LED Unit

The LED Unit consists of a small team supported by two technical experts. This Unit will work through a series of partnerships to fulfil its mandate and will mobilise external resources to give effect to this strategy. Its main role will be to coordinate the implementation as the identified tasks will be the responsibility of other departments and/or agencies.

### 8.3 Role of the LED Forum

The National LED Forum, operating through dplg in a broad intergovernmental partnership, supported by an LED excellence network, will play a key role in integrating state action, combining government and off-budget resources, and energising innovation and excellence in local economic development. The National LED Forum, which is established to create a focal point for LED in South Africa should work towards:

- Improving integrated economic planning;
- Co-ordinating access to funding and finance for LED initiatives and the creation of multi-sourced funding streams;
- Improving the performance of local government with respect to all aspects of local economic development;
- Assisting local government in identifying and capitalising on local competitive advantage for territorial economic and social development;
- Improving sustainable access to investment finance necessary to capitalise on local competitive advantage for economic development;
- Ensuring the participation of previously disadvantaged communities and individuals in the realisation of the opportunities offered by local economic development.

This framework will be complemented with guidelines and toolkits for municipalities on facilitating LED. Much work has been completed in this area by dplg and its partner organisations.

### 8.4 Excellence network

The national LED Forum and the dplg LED unit will be supported by an excellence network that will focus on dedicated research on local economies and developing and maintaining a databank of information. This network will be facilitated through a knowledge and information centre, the establishment of which is supported by committed donor funding. The excellence network will facilitate the competitive positioning of South African local economies through cutting-edge research and on-going analysis of local economies, trend projections and econometric data banking.

### 8.5 Implementation of Strategies

The four strategies identified in the national LED framework will be implemented using the following approach:

**Strategy 1.** This strategy will require the LED unit to focus on a range of existing dplg initiatives around the priority of improving local economies. A number of actions are underway and monitoring, reporting on these actions from a point of view of building public and investor confidence is the responsibility of the municipal finance section at dplg, working closely with National Treasury.

**Strategy 2.** This strategy will be driven through the IDP/PGDS/NSDP alignment task team that is led by the Presidency and of which dplg and dti is a part. The team will oversee the development of strategic district and metropolitan IDPs working together with the relevant provinces and municipalities.

**Strategy 3.** Strategy 3 is largely a part of the on-going responsibilities of dti. There are also a number of additional sector-based enterprise support initiatives such as the

Department of Agriculture's emerging farmer support programme that need to be localised more effectively through this framework.

**Strategy 4.** This strategy will require a special programme to be established. The LED unit will mobilise resources for an appropriate institutional structure to develop concepts and proposals to pilot and replicate sustainable developmental community investment programming.

## Chapter 9

# FUNDING LED

### 9.1 Sources of Funds

Although financial support for LED can be derived from a wide range of sources, a key difficulty is that the municipality or local development agency often lacks adequate, locally available funds to drive the LED process independently. Municipality led LED can either employ funds generated locally, such as through the levying of rates and taxes, or it can be derived from higher tiers of government. In the European Union (EU), the principle of *subsidiarity*<sup>14</sup> and the encouragement of local programme planning, in terms of its Multi-Programming documents provides an important additional revenue source for LED.

Community-based LED however often has less secure funding sources, relying on charitable donation and public grants (where available). In the developing world in particular, the role of local and international NGOs is clearly of great importance in accessing and making available funds for local development projects.

### 9.2 The role of saving and sharing

To create robust local economies encouraging savings is vital. Most small private enterprises and cooperative ventures require capital inputs, which are at the micro level of funding. Savings and credit unions and clubs are an important mechanism to boost the stability of local economies and develop sustainable human development. A sharing of technology and resources be it tractors or fabricators fit into the concept of sharing revenue and cooperative approaches. Local economies can be stimulated through such initiatives and thereby support innovation and agility in the economy.

### 9.3 Funding of LED internationally

Internationally, support for local government has increasingly become polarised into two distinctive camps. It can either take on:

- a grant dependent focus which is based on the principle of direct transfer to municipalities to meet recurring and proj-

ect expenses. Such amounts are often determined by national priorities such as in the case of Bolivia where decentralization requirements guarantee that a set percentage of central government revenue is devolved to municipalities and which may or may not be required to be spent on certain set priorities.

- a competitive bidding approach which requires municipalities and/or partnerships to apply for programme/project specific funding from central sources. Funds are allocated on the basis of project viability and sustainability and principles such as the ability to leverage in other funds also play a role. Funding can either take the form of loans or grants. One of the best current examples is that of the Single Regeneration Budget Challenge operating in the UK, which was introduced in 1994 and has become a key source of municipal funds. This financing mechanism is based on the principles of competition and collaboration with multiple partners and is currently being extensively piloted by dplg in conjunction with three provinces (Eastern Cape, Kwa Zulu Natal and Limpopo) with a budget of R800 million

### 9.4 Issues in LED Support

Experience from South Africa and around the world clearly indicates that a wide-range of instruments is being applied to support and fund LED programmes and projects. Key issues that emerge from the overview include:

- the issue of whether support should take the form of direct grants or rather loans,
- whether support should be provided on a competitive bidding process which targets the most economically viable schemes or whether it should be rather made available to the areas most in need of assistance,
- whether LED support should be channelled through multiple, possibly overlapping programmes, or whether a single channel LED support instrument is the ideal,
- how to ensure the effective participation of the private and community sectors to achieve both economic growth and poverty relief redistribution objectives,
- the extensive use of municipal procurement budgets in stimulating LED.

<sup>14</sup> Subsidiarity is the process of bringing the level of government decision making down to a level where the people to be influenced by that decision can be involved in the way it is made and influence its direction.

## 9.5 Funding Support in South Africa

There are numerous sources of funding for the inputs that can contribute to developing a local economy. The challenge is to build the requisite capability both at local, provincial and nation-

al government level to guide the mobilisation and application of funding in local economies in an effective manner. Funding should also follow strategy and be based upon the shared understanding across government of the economic outcomes envisaged in the differentiated local spaces of the country.

Funding Source	Challenge
Local government own revenue	Municipalities should generate more own revenue through increased economic activity in the form of property taxes and sale of municipal services.
Equitable Share (ES)	<p>(1) Increase in overall national growth generates more revenue for municipalities. High growth municipalities support low growth municipalities through national transfers - redistributive measure.</p> <p>(2) Fund development function of municipalities through the currently undefined development component of the equitable share.</p> <p>(3) Improve utilisation of provincial equitable share and transfers to municipalities to support integrated sustainable human settlements and robust local economies.</p>
Municipal Infrastructure Grant (MIG)	<p>(1) The current level of transfers supports mainly basic infrastructure development. This in itself needs to be spent and utilised better by municipalities.</p> <p>(2) The MIG does support infrastructure for economic development. This "E" portion could be increased. Infrastructure for street traders for example should be developed utilising the MIG.</p>
Neighbourhood development partnership grant (NDPG) and urban development incentives (National Treasury)	Municipalities to organise themselves and apply for the NDPG over the 2006-2009 MTEF period. Inner city strategies to maximise usage of property development incentive from urban development zone program. Consideration should be given to expand to areas outside inner cities.
Sector support (National departments and State Owned Enterprises) Includes range of dti support to give effect to the Industrial Policy framework for customised sector development, enterprise support, critical infrastructure and spatial development initiatives.	<p>(1) There is a range of funding sources available for sector specific initiatives from national departments. The challenge is both for better communication on the side of national departments about these funds and for municipalities to be more proactive in linking with these initiatives.</p> <p>(2) Better institutionalised inter-governmental coordination at district/metro level should address this challenge through joint planning.</p> <p>(3) Many sector programs are also delivered directly in municipal areas. This together with funds that can be channelled through municipalities need to be organised better so that the integrated impact and outcomes optimises economic development in the local space.</p>
Development Finance Institutions (DFIs) such as IDC, DBSA, National Empowerment Fund, IDT, NDA; and private banks, venture capital companies.	The challenge is to link local enterprises to these support instruments more effectively through better communication and information. Growing and expanding the number and size of local businesses is the key for local economic development. Mobilising corporate social investment and support for cooperatives need to be expanded through public-private partnerships.
Donor funding	Coordination and ownership of donor support by government is critical. The mainstreaming of these support instruments into the programs of government is required. The large EU support for LED in Kwazulu-Natal, Limpopo and Eastern cape for example has to be optimised around governments vision for local economies in these areas expressed through the PGDSs and LED programs.

## Chapter 10 SUMMARY

This national framework for LED should be seen as a response to the micro economic challenges the country is facing as local economies seek to mirror the success of and complement macro-economic strategy since 1994. It seeks to mobilise local people and local resources within the framework of the PGDSs and NSDP, to become competitive in both the domestic and international markets. Increased competitiveness increases investment and employment. The approach compliments national macro-economic policy arrangement and augments the range of current sectoral initiatives to deal with the challenge of employment creation and brings into focus a territorial and localization dimension to these initiatives.

The framework is intended to build a shared understanding of LED in South Africa and put into context the role of local economies in the national economy. It places the emphasis on

waging the battle against poverty “on the ground” at the local level by marshalling state action in a locally specific manner in support of local communities. The framework lays the basis for deepening community access to economic initiatives, support programmes and information and for the co-ordination of economic development planning and implementation across government and between key role players.

By 2014 poverty and unemployment can be halved and by 2030 South Africa can have a single integrated economy and be amongst the leading economies in the world. This can happen through realising the vision of “robust and inclusive” local economies where people are seen and involved as one of the most important resources for economic development, where local leadership and assets are harnessed and where local economies are networked into intergovernmental partnerships and national and international resources, opportunities and programmes.

**By 2014 poverty and unemployment can be halved and by 2030 South Africa can have a single integrated economy and be amongst the leading economies in the world.**



# ANNEXES

## ANNEX 1

Examples of Processes Supporting Sustainable Community Development

## ANNEX 2

Recognising Progress and Challenges South Africa's Economic Progress since 1994

## ANNEX 3

Learning from Experience

## ANNEX I

### Examples of Processes Supporting Sustainable Community Development

#### Box 1. Investment Rights: Grazing Illustration

Suppose that there is a village with 100 adult members and one grazing area. The technical carrying capacity – the number of animals to be grazed - is set by the members at the AGM when they prepare the Management Plan for the area. Say, this year it is 1000 livestock units. Therefore, in the first round, each member will receive (as a use right) an equal dividend of ten grazing units for that year ( $100 \times 10 = 1000$ ). During the next month, the members can exchange, that is buy or sell, their grazing rights. A ruling price for grazing will emerge, say R100 per unit. That means that those without cattle can receive R1,000 if they sell all their ten grazing rights ( $R10 \times 100$ ). Those who do not sell can use the land to graze their cattle as a business venture. And they can buy in more grazing rights from members who wish to sell at the ruling price.

The prices arrived at will provide key indicators for community and family decision making. For instance, for this year the total income of the grazing land is R100,000 ( $R100 \times 1,000$ ). No longer may the Chief 'give away' the grazing, as in a drought, to a nearby commercial farmer for a personal consideration worth a tiny fraction of R100,000 - a few thousand Rand has been all too common!

The equal distribution of community grazing rights allows the poorer members to consider selling, say, nine units and using that income, R900, to help acquire another animal. Should many members use such income towards the purchase of additional animals, then the price of grazing will be driven up. In short, it is a self-regulatory system managed within the community.

For example, in a drought, the members may cut the carrying capacity in half, reducing the grazing rights per member by half as well. This will force a greater selling-off of animals and raise the price of grazing, both useful responses to a drought.

In the next round, at the AGM, the members can decide upon a new feature - to retain for investment, say, 40% of the value

of their grazing rights, or, in this example, R400 per member or in total for all the members, R40,000. This has to be retained in cash. This 'fee' represents what in a company would be profits retained for re-investment before the net income is allocated to dividends. In other words, the members, like the Board of a company, first secure the future of the village as a productive environment for the earning of their livelihoods by retaining (in cash) 40% of the total value of the grazing rights, their dividend for ownership, to be paid out to the village owner members. Those who do not have cash to pay the 'fee' can sell their grazing rights in the market to obtain the R400 they must give to their Grazing Company.

The result is the modernisation of the traditional joint ownership in a modern organisation with prices, equal man and woman membership and as a vehicle for cash and labour investment

#### Box 2. Resource Distribution: An Ownership and a Competent Society

At the government level, national revenues are redistributed by the intergovernmental fiscal system through the assignment functions allocated to each sphere of government. The aim is to promote equity and poverty alleviation and to remove the legacy of large socio-economic backlogs and under servicing across social groups and regions. Provincial government budgets are largely formed, around 75%, by Education and Health. With Social Grants, it rises to near 90%. The result is that there is little flexibility in budget expenditure. However, there is considerable room to rethink the spending pattern, not the aims, of all three major components.

Social Grants go mainly to recipients who live in the marginalised areas. These grants go to individuals. The overhead and transfers costs are thus high. The money is quickly taken out and largely spent outside these areas in shopping malls and towns. That R70 billion a year buys very little local economic development. In this sense, while providing income relief to millions, it represents highly wasteful expenditure.

The Investment Rights, which run for only five years in each member community, enable the community to build up its local productive base, first to grow as much as possible of the large amount of food required to feed its children and then to contribute to the regional economy.

If the marginalised areas of the Second Economy had local currencies, a third to a half of the salaries of civil servants could be paid that way. This money could be used to pay all official bills (rates, electivity, school fees, etc) and to buy locally provided services and locally produced goods. Each month the total local effective demand would rise as it could not 'run away'. After a year or two, the total monthly local demand in a poor area would have doubled and local production increased manifold!

### Box 3. Community Gardens

Few community gardens survive more than a year. For all, the lack of local effective demand constantly threatens to bring production to a halt. In most, the absence of any donor or community concern for first ensuring that there is sustaining local demand is combined with no real attempt to design the institutional and management arrangements. Consequently, a powerful individual may grab control, tuning members into labour. Or the community will split over who owns it.

The answer lies in equal adult resident ownership of the garden; a renewal of tradition that now includes women. That means that all receive equal 'Garden Use Rights' once a year. These they buy and sell amongst themselves so that, for the first time, a price arises. Each member seeks to buy-in the extra rights they need to be as big a gardener as they wish to be at the ruling price for Garden Use Rights.

The fact that ownership brings a dividend, Garden Use Rights, means that all are willing to invest both cash and their considerable unused labour. After the first year, they 'buy' their Use Rights for a figure below the ruling price of the previous year. In that way, the garden, run like a democratic property company, gains the income to manage and to maintain itself, with monies left over for further investment. That investment can be more than matched by equal member labour contributions. This formula can be applied to all jointly owned resources; grazing, irrigation, orchards, shops, workshops, markets and houses to rent out. A village then becomes a powerful, largely labour driven, investment and resource management body. It could be a major competitor in the land market if it chose to expand its land base! (See also Investment Rights)

### Box 4. The Agora or the Forum?

Athens was a city of poverty. People lived in hovels. Yet it became a centre of civilisation and founded much of what we know today about democracy and citizenship. It also became a great trading city.

In Athens, the emphasis was not upon state funded housing and dependency upon distant jobs and shops. The "Agora", the large public place, where people met and did their daily business, was the heart of the city. It was here, in the Agora, that local and increasingly regional trade took place, where banking began, where philosophers engaged the populace, and where public debate and governance occurred.

Catholic and Muslim towns and cities have been founded upon central squares and markets built around the cathedral and the mosque. The town radiated outwards so that all had to traverse the centre, pulling limited individual purchasing power into a vibrant local economy.

Under British colonial administration, and then under apartheid in South Africa, the Agora was replaced by the tradition of the Roman Forum, a central square surrounded by important buildings behind the facades of which power was exercised. These public squares were not about the people and their living. They were for ceremonies and to keep the people away. Today, ironically, most of these squares glisten with parked motorcars. They serve neither the display of power or serve the needs of citizens!

South Africa has very few 'public spaces', yet African tradition centered tribal life upon the Chief's place or the Lekotla. Working local economies need public spaces, Agoras, not shopping malls.

### Box 5. It is not Production that drives LED, but cash circulation!

South African experts push production. Yet, the country is littered with failed garden, sewing and other supply-side projects. They failed mainly because there is little or no on-going local demand. One can produce locally, but one cannot sell.

The old 'homeland' white elephant projects were all irrigation driven. Few worked, all carried very high consultant overheads

and all were technically 'posh'. The worst was the Keiskammahoek irrigation small farmer dairy scheme. The milk was too costly, the 'farmers' were really just tenant labourers, and the monthly milk cheques to farmers were cashed in King William's Town and largely spent there. The scheme sucked the economic lifeblood out of the area.

In India, the AMUL Dairy Co-op (55,000 members) pays for the milk delivered in cash every 12 hours! That means that every morning and afternoon there is a large market next to the milk collection centre driven by the milk payments. Milk supports a far bigger and varied local economy.

AMUL accepts a thimble full of milk so that all can produce and sell milk. A 1% deduction on the milk price pays for vets stationed in the villages on call 24 hours. The vets ride the milk trucks to conduct 'clinics' alongside Village Veterinary Workers. Later, in the late 1970's, after asking the women why they did not look after their families as well as they did their buffaloes, the members added another 1% deduction, for health. This pays for doctors and nurses and Village Health Workers piggy backing the veterinary system.

The Gujarat state government then agreed to pass all the Health monies normally spent in the District of Kaira to AMUL. Members continue to pay the milk discount. Non-members pay a fee. All are guaranteed access to the Co-op Health Service. Vast irrigation, oil-seed and other investments have followed a socially and economically organised community driven by cash circulation.

### Box 6. Community Banks

The push for Community or Third Tier Banks is admirable but unlikely to work if there is no money circulating in poor communities. Child and Investment Rights will create the urgent

need for Community Banks as they inject relatively large funds into organised communities; funds that 'stay to work'. Community Trusts will also need to work with a Community Bank that houses its member / owner accounts.

Today the Internet, smart card technology, the common ID card, and bank ATM cards all allow Community Banks to work as the 'retail' partner to 'wholesale' Commercial Banks. The latter offer transaction accounts but no real membership of a bank – the poor cannot obtain loans.

Community Banks can set up 'Trust Accounts' into which members bring back savings from other bank accounts. This allows the members, jointly, to buy longer term savings certificates with far higher interest rates than they can obtain individually. 1% of the 3% to 4% percent interest that is gained can be 'taxed' to pay for the running of the Community Bank. Members would enjoy the usual saving and withdrawal facilities.

The Community Bank can then become the agent for the Land Bank and other lenders for small farmers and SMMEs. It can help members apply for loans and it can link the member's 'track record' in the Community Bank to each application. Loans then become timely certainties. Such loans can total large amounts. Repayments can be made through the Community Bank so that it gains all the considerable commission income.

Then the members can place some of the Trust Account monies into a Members Loan Account to provide quick loans for funerals, school fees etc. This will earn the Community Bank higher interest again, rewarding community savers further. SACCOL in Cape Town and the Department of Agriculture both register and support such banks. The total 'business they could be handling is enormous, perhaps as much as R100 billion a year; business the commercial Banks do not want and thus will not create.

## ANNEX 2

### Recognising Progress and Challenges

- a) **South Africa's Economic Progress since 1994** Prior to 1994 the development challenges were enormous. There appeared little prospect that they would be addressed in the short-term. Since then we have passed considerable legislation and framed numerous policies and programmes to achieve what are admirable, and inclusive, national goals. The task has been seen as that of the 'delivery' of this great promise through improved "cluster, integration, co-ordination and alignment" of state efforts alongside a hoped for citizen involvement. It has not yet shifted gear to a clear set of strategies that uplift these areas in full partnership with citizens.

Before attaining democracy, economic growth was stagnant, debt and interest rates high, education and skills poor, savings and investment levels were low, participation rates in the economy extremely low, and business not competitive internationally. Most workers travelled long distances to work and enormous social strains were placed on families and communities. The space economy was characterised by large pockets of deprivation and poverty.

Despite real achievements, notably with global competitiveness and with housing, electricity and water provision, and lower interest rates (but volatile exchange rates), there remains a high level of frustration within government and amongst, particularly, the poor: all that effort and increasing spending has yet to bring marked improvement in ways that build the sense of self-control over economic activity and thus of citizen 'competence'. The legacy of 'black' marginalisation remains a powerful negative force, both materially and mentally.

National macro economic policies and strategies have since 1994 been successful in addressing the ills of the global First Economy. The budget deficit has come down from 9.5% of gross domestic product (GDP) (including the deficits of the Bantustans) in 1993 to fractionally over 1% in 2004/5. Total public-sector debt has fallen from over 60% of GDP in 1994 to barely 50% of GDP in 2002/3. The net open forward position of the Reserve Bank has fallen from \$25 billion in 1994, to \$22.5 billion in 1998 and to

zero in 2003. Foreign reserves have risen from one month's import cover to two and a half month's import cover. South Africa has achieved a level of macro economic stability not seen in the country for 40 years. These advances create opportunities for real increases in expenditure on social services; they reduce the costs and risks for all investors, and therefore lay the foundation for increased investment and growth.

Finance Minister Trevor Manuel has said that South Africa's current four percent economic growth rate is insufficient for the country's development needs<sup>15</sup>. Though it is up from three percent in the past decade, four percent would still not allow for the doubling of average annual household income in less than 25 years. Rather, it would leave unemployment above 20 percent and hold back efforts to reduce poverty. "The elixir for us would be growth above six percent," the Minister concluded. If growth above six percent were sustained, poverty should be halved by 2014 and average household income doubled in 15 years. For growth to reach above six percent, then half or more of the population that today represent a 'cost' in terms of inactivity, high disease loads, the source of much crime, and the need for income support, free services and other assistance, must be enabled to become 'competent'.

Nor can we pretend that health and education, the police, the army and other state sectors are well funded. Some are clearly under-funded. Indeed, there is a growing tension between the rising cost of social grants and the greater provision of 'free' services, now including 'free' education in poor areas, and the desire for greater direct state expenditure and investment activities that grow the economy<sup>16</sup>. Another tension is the worrying inability of many municipalities to both spend money but, more importantly, to secure payments from poor residents for the services they provide. Council bankruptcy is a dark shadow over Local Economic Development.

#### Box 2. Where is the First and Where is the Second Economy?

The Second Economy is still closely associated with the apartheid legacy of the non-working local economies of townships, informal settlements and rural areas where some 70% or more of South Africans live. These areas are highly depend-

<sup>15</sup> The Rand is heavily traded internationally and so open to speculative forces that drive foreign exchange volatility. Minister Manuel has indicated that "These huge oscillations are happening in an environment where we think we are doing the right thing in terms of macro-economic policy... We try to do all the right things to have a well-traded and flexible exchange rate. But the level of oscillation makes it exceedingly hard. This does not provide an easy environment for decision making." *Business iAfrica*, August 4th. 2005.

<sup>16</sup> Between 1995 and 2002, the number of people employed in South Africa grew from 9,557,185 to 11,157,818. This represents 1,600,633 new jobs. However, during the same period, the number of unemployed people grew from 1 909 468 to 4 271 302, an increase of 2 361 834 according to the strict definition of unemployment. This includes an increase in the base numbers of those seeking work, which now includes a greater proportion of women from rural areas.

ent upon 'global first economy' for jobs, goods and services. If one receives a salary within these areas, as do teachers, for instance, or is able to commute to a city to work, then one enjoys a regular income from the First Economy and can spend that money in the shops of that global First Economy. Of course, one is punished in that the teacher and the nurse are poorly paid (because they live in a low cost place) and the worker who commutes daily to the city spends a large part of his or her wage on transport.

Having regular cash income, such people often own the bigger houses and, in villages, are invariably the bigger cattle owners. The latter often pervert the tradition of 'mafisa', that is of guaranteeing that all own and run cattle by lending a breeding herd to those who lose cattle so that, by keeping the progeny and returning the lent cattle, they are restored to cattle ownership. Teachers and other salaried people buy cattle and 'mafisa' out the herding to poor relatives and others. This then establishes them as privileged 'users' of the village grazing for which, being still a 'free good', they pay nothing.

In the old 'white' suburbs, all had jobs and so lived in the First Economy. Today, there are many who have lost jobs and so live in their own Second Economy amongst neighbours still enjoying the large cash incomes of the First Economy. Such people have to move into smaller houses and eventually may rely on charity. They will probably end up living next to people who have 'moved in' from the townships, many to reach better schools, perhaps filling a house with many children under the care of a teenager.

Who is in and who is out of the First Economy is often a matter of who has a job. Those who are in the Second Economy would like a job because, where they live, in township and in suburb, they cannot be active locally since they cannot produce and sell where they live because, as money does not circulate there, there is no local effective demand.

Recent progress with BEE and the rapid rise in social grants (to R60 billion in 2004/05) has shifted wealth, income and black consumer spending patterns. The result has been marked increases in the purchase of 'catch-up' items like

cars (though blacks still buy under 10% of all cars), furniture, electrical goods, clothing, cell phones and 'preferred' foods. Almost none of this spending buys goods or services produced in marginalised areas of the Second Economy<sup>17</sup>.

This structural fault makes it difficult for Government to succeed with SMME and co-operative development. That, in turn, frustrates the aim to enable citizens, particularly the poor, to combine their financial, labour and other resources so as to rebuild communities. Indeed, Statistics SA surveys over the past ten years show worsening income inequalities.

**b) Growing Economic Dualism Worldwide.** It is worth acknowledging that the current focus on the municipal sector stems primarily from the challenges municipalities face. The discontent with municipal performance in many cases raises questions about the capability and viability of certain municipalities in South Africa.

This paper has identified the internal weaknesses of the Second Economies as the root problem. There simply is not enough 'yeast in the bread dough' of the marginalised townships and rural areas for these areas to respond directly to the 'delivery' of services and the investment in infrastructure.

The dual economy syndrome is not peculiar to South Africa. We suffer an extreme case of the marginalisation of regions and of a majority of our citizens because of our long discriminatory history. It thus helps to look at other parts of the world where marginalisation is becoming the central issue of economic policy, of governance and of the furtherance of democracy.

We can start by looking at persistent underdevelopment in the EU, in Germany and the Argentine as these rich and moderately rich regions all increasingly resemble the dual economy of South Africa. There is also a major and highly constructive corrective proposed to allow all regions to "find their local economic feet" that suits conditions in South Africa.

## ANNEX 3

### Learning from Experience

**a) Challenges to Conventional Wisdoms.** LED in South Africa has not been without its challenges. Whilst there have been key achievements as the above evidence from South Africa indicates, as Tomlinson (2003) argues in South Africa there is a commonly held, narrow conceptualisation of LED based on the view that it should be centred on poverty relief and small business development in the black community. As a result, he argues that mainstream economic policy largely has been ignored in the application of LED. Differences in approach between the market focused approach and poverty relief approach are emphasised as cause for local level uncertainty and retarded development.

Among other critics, Meyer-Stamer (2002, 2003) draws attention to other uncertainties in the South African context, namely, "is the municipality supposed to be the driver of the LED process, or a facilitator, or rather an active observer of a process which is driven by the local business sector?" (Meyer-Stamer, 2002, p.3). In addition, he states that there is confusion over the difference between LED and community development. LED is not community development, albeit for successful LED community involvement is naturally critical. Limited funds, capacity and resources, according to him, will through current frameworks, lead to only limited developmental impacts.

Local economic development will not succeed on the micro level alone. In fact it is a meso, or regional concept, which needs constant support and stimulation from local government, including the provinces and local municipalities, but with great responsibility falling on the shoulders of the District Municipalities and Metros. This is despite the general lack of preparedness and capacity in these structures to fulfil the needed tasks. At the same time, it should not be thought that LED is an exclusively local government prerogative. To do so would lead to a failure to draw on the potential synergies which can flow from collaboration with a range of different stakeholders and initiatives. Other difficulties experienced in applying LED include:

- lack of coordination within municipalities, within provinces and also with business (including farmers), labour and communities

- the need to link LED to other initiatives
- the need for dedicated LED vehicles
- inadequate funding
- the grant dependence and over subsidisation of many projects
- the short term nature of public investment programmes
- poor understanding of the local economy
- lack of focus on global impacts such as climate changes, environmental matters such as geological, water and air quality on local economies
- few alternative approaches to sustainable development, such as recycling, methane gas production, exploitation of natural and renewable energy sources
- there is a need to correct what has been termed: "a lack of understanding and/or agreement of what LED means within local government circles" (DPLG, 2003, p. 6).

### b) Experiences and Lessons Learnt

Annex 1 outlines a range of examples and case studies on LED in South Africa and abroad. In summary these case studies reveal the following.

The **international examples** reveal the following lessons:

- USA – empowerment zones: This case showed that direct support to business in targeted areas can achieve noteworthy results, however tax related support is not necessarily an ideal support measure.
- USA – Regional rural development centres: Though not a financial instrument, this case revealed just how important extension support in the form of advice, empowerment and facilitation can be in terms of laying a basis for successful LED.
- The UK experience demonstrates the key role which public-private partnerships can play in the competitive bidding process to access state resources and also to implement LED. The UDC clearly was key agents of change, but more local government and community involvement was needed in them. In the SRB the focus on viable projects, community and private involvement, integration of state support and the competitive process is a clear example of a market led instrument.

- The EU financial support schemes highlighted certain key dimensions:
    - the need to target different support measures to different areas according to their needs,
    - that collaboration and subsidiarity between the different tiers of government is important,
    - that single funding instruments are viable,
    - that a programme focus, a reliance on partnerships and requiring co-funding all have a key role to play.
    - the Small Projects Fund illustrated the case to make smaller, more easily accessible grants available to weaker areas.
  - the OECD guidelines revealed the importance of having credit and loan guarantees in place.
  - The United Nations: as a result of more than 15 years experience in developing countries and countries in transition carried on by various agencies (UNDP, UNESCO, UNIFEM, ILO, WHO), the following lessons can be derived:
    - the need for establishing a comprehensive service system, for avoiding waste of resources and overlapping, such as the LEDAs promoted by the UN cooperation programmes,
    - the need for stimulating and supporting the most disadvantaged population and enhancing equitable development,
    - the need for strategies agreed by the private and public local stakeholders, linked to national strategies and government,
    - the importance of capacitated pro-active local government,
  - the importance of a customised credit scheme, overcoming the traditional micro-credit mechanisms, and focused on local guarantee funds.
  - UNCDF: Through the application of the Local Development Funds across the developing world, certain key issues are revealed as part of the process of financial support:
    - the need to fund capacity building,
    - the need to support partnerships and sustainable projects,
    - the need to support decentralized planning, governance and institutional development in order to achieve poverty relief.
  - The cases from Uganda, Bolivia, Brazil, Mozambique revealed the need for:
    - effective institutional development,
    - participation,
    - accountability,
    - central oversight and local control,
    - guaranteed and reliable funding.
  - MALAYSIA: This case study indicated the importance of the formation of networks, the distinctive role of local governments and partnership formation.
- The **South African case studies** illustrate several critical dimensions with respect to the application of LED in South Africa, namely:
- LED is taking place and in many cases is exerting a positive impact on both economic growth and poverty relief at a municipal wide level,
  - Government programmes, national, provincial and local can impact positively on local areas,
  - Local government collaboration with the private sector and community sectors is both desirable and viable, and the private and community sectors can play a meaningful role in LED,
  - Community based programmes can link to the market,
  - Local municipal officials and their municipalities can be key change agents in local economies. They can give direction and guidance to development and encourage partnership formation and joint action.
  - The establishment of LED Agencies and the positive support of District Municipalities is desirable and can have a meaningful impact on LED,
  - LED is not just about poverty relief or community projects, it is an economic growth strategy, which can encompass community, global and spatial dimensions.
  - Enhanced policy, financial and capacity support is both desirable and appropriate in order to address development backlogs and enhance the economic contribution, which LED can make in terms of economic growth, development and poverty alleviation.
  - LED actions can take place at a municipal wide level and require the setting of comprehensive and realistic goals and joint action within municipalities and with the different spheres of government, the private and the community sectors and all local role-players. Economic growth development and poverty relief goals can be achieved through a range of complementary developmental projects including PHP, EPWP, waste management, transport implementation and tourism, which capitalise on local opportunities and which address specific needs.





## NOTES

A series of horizontal dotted lines for taking notes.