

SALGA LED POSITION PAPER

KEY ISSUES IN LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA AND A POTENTIAL ROLE FOR SALGA

SUBMISSION TO:

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1. INTRODUCTION AND BACKGROUND

The South African Local Government Association (SALGA) is a legislated body representing the interest of Local Government in South Africa. Its role is to:

- Support and advise its members.
- Engage with stakeholders and lobby them and advocate on issues in the interest of member municipalities.
- Represent members as the employer body.
- Contribute to the positioning of local government - locally, regionally, and internationally.

The National Directorate of Economic Development and Planning within SALGA is responsible for promoting economic development, development planning, overseeing integrated development planning, environmental issues, tourism promotion and improved municipal financial management.

The key objectives for this Directorate are:

- o To assist local government in developing LED programmes that ensure that priorities and policies determined at a national level are rolled out at provincial and local level.
- o To represent local government on initiatives of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA).
- o To be involved in the next phase of EPWP.

As part of the process to develop a detailed strategic plan of action and business plan for the Directorate of Economic Development and Planning, SALGA has appointed an expert to undertake research to provide input in the area of local economic development.

The key objective of this work is to investigate and table the key issues that affect LED and the LED process in South Africa, and to highlight where and how there is a role for SALGA to play in improving the effectiveness of LED planning and implementation.

In order to deliver this objective, the following activities will form the scope of work:

1. A high-level scan and analysis of the policy and legislative environment impacting on local economic development.
2. A high-level scan of the key relevant institutional arrangements and key role players, such as the DTI, foreign donors, etc.
3. Identification of the key issues within the global, continental, national and local context relevant to local economic development in South Africa.
4. Identification of the key issues that differentiate the process and implementation of LED in rural versus urban local authorities, and various categories of local authorities. .
5. Identification of those areas where there is a role for SALGA to play in improving the quality of LED planning and implementation, and briefly describe the nature of those interventions.
6. Based on the outputs in (5) above, development of a medium term action plan and a one year business plan for the Economic Development and Planning directorate.

2. AN OVERVIEW OF LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA

2.1. A Brief History

The apartheid government was characterised by a strong focus on central planning and control, and almost no role for local authorities in economic planning and development, beyond certain spatial (town) planning responsibilities. In addition, there was a clear policy of neglect towards many areas where the population was predominantly non-white.

In contrast, the post-1994 government has placed a strong emphasis on community and grassroots initiatives and participation. Importantly, local government is now viewed as a sphere (as opposed to a tier) of government, and has been allocated a range of roles and responsibilities with respect to economic and social development. This environment is more supportive of the general concept of Local Economic Development (LED) although, as we shall discuss below, this has not always translated into the expected results. The development and implementation of LED plans and strategies has been different in different parts of South Africa, not least because it was only after the December 2000 local government elections that every piece of land within South Africa fell under the jurisdiction of a municipality. Therefore, in many areas concepts and ideas around LED are fairly new.

In an attempt to ensure that local authorities do in fact focus on LED as a priority area, it is now compulsory for all local authorities to draw up (among other things) an annual and five-year Integrated Development Plan (IDP), which plan must contain an LED strategy (Section 26 – Local Government Municipal Systems Act – 2000).

Until very recently, the main focus of most municipal LED initiatives was community economic development projects, the majority of which proved unsustainable once donor or public-sector funding disappeared, and so had no real long-term impact on poverty reduction. The Department of Provincial and Local Government (DPLG) is now clear that municipalities have a key role in creating a conducive environment for investment through the provision of infrastructure and quality services, rather than by developing programmes and attempting to create jobs directly.

The 2000 LED Guidelines to Institutional Arrangements and the 2002 Draft LED Policy focused on “pro-poor development”. Although this focus is logical, given the high levels of poverty and inequality, the institutional response towards this requirement of “pro-poor” development has been very different in different areas. In the larger metropolitan areas, most LED officials have adopted an approach that is focussed on creating a more supportive and competitive business environment, investment in infrastructure that reduces the cost of business, the regeneration of inner city and township areas, and research around and institutional support to new sectors with high growth and employment potential. In contrast, most of the smaller centres have focused on increased service delivery, extension of the social grant system, public works and SMME initiatives.

Importantly, LED initiatives in smaller centres tend to be project-based, while those in larger centres are increasingly focused on creating appropriate institutional market enabling frameworks. The latter approach offers a much more effective and sustainable way of leveraging public-sector funds into economic growth and development.

The important point to make here is not that one group is “anti-poor” and that the other is “pro-poor”, but that they have very different perceptions of what LED is and what sort of LED strategies will be in the best long-term interests of reducing poverty. The most likely reasons for this divergence in approach are:

- (i) Attitudes towards formal and big business in the metropolitan areas tends to be very different from that in smaller areas. As a general rule, in larger centres there is a greater willingness to work with the private sector. In contrast, in many smaller centres, due largely to historical events, LED officials often see their role as being “on the side of the people” as opposed to the side of formal business.
- (ii) The larger centres are able to employ people with experience in economic assessment and development, who will generally take a “pro-growth” approach.
- (iii) Until fairly recently, the Government has tacitly supported the project-based approach to LED through funding mechanisms such as the LED Fund. Although the DPLG’s 2006 LED Framework (see below) now advocates a different approach, the reality on the ground has changed little. The fact remains that it is much easier to design projects than to consider, assess and address structural and institutional barriers to development. A high-level review of a number of randomly selected IDPs for both District and Local Municipalities indicated an overwhelming project focus across almost all but the biggest Metros.
- (iv) Relatively high levels of employment in the formal sector in larger centres underscore the benefits of a cooperative approach with business. High levels of informal employment and/or unemployment in smaller and more rural centres tend to encourage a different approach, with government as the key (and often only) provider of development solutions and employment.

These are key issues that we will return to later in this document.

According to the DPLG (2006 – National Framework for LED in South Africa) Local Government now has three key roles to play in LED:

- 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. (DPLG – 2006 LED Policy Framework)

An important development since 2000 has been the establishment of more local economic development agencies (LEDAs). To date more than 30 LEDAs have been established, but with very different degrees of success. Many of these agencies (20) have been supported by the

Agency Development Support (ADS) department of the Industrial Development Corporation (IDC). The primary goals of these agencies include:

- (i) To promote and develop local and/or regional economic potential;
- (ii) To support innovation and entrepreneurial thinking; and
- (iii) To leverage private and public financial and other resources for development;

The key thinking behind a local economic development agency is to use private-sector means to achieve public-sector goals. Although a number of agencies are having success, ability to access the required skills, the willingness by the local authority to embrace this approach to LED (not just in theory, but in practise through the allocation of resources), and the ability of the agency to build private-public sector partnerships are key stumbling blocks.

The failure of LED to achieve its objectives in many of South Africa's poorest areas is a key issue behind much of the social unrest that we have seen over the past few years. As a result, government has realised that it needs a pro-active and structured approach towards LED. The DPLG's 2006 LED Framework aims to create a more united approach towards LED, and to provide much more in the way of concrete guidelines for local authorities. Given the key role of local development initiatives in addressing the huge unemployment issue, we would expect that more focus will be placed on supporting LED over the next few years.

2.2. The Legislative and Policy Environment

The regulatory framework for LED has many fragmented components at present, including Integrated Development Planning, spatial development frameworks, land and zoning regulation, public-private partnerships, business enterprise support, by-laws, special purpose vehicles for development, asset disposal, and the "linkage" strategy.

The key pieces of legislation and related documentation relevant to LED, and which provide context for LED in South Africa, are:

- The Constitution (1996), which recognises the importance of local government in economic development through the following statement:
"A municipality must structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community."
- The White Paper on Local Government (1998), which introduced the concept of "developmental local government", 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."
- The Municipal Systems Act (2000), which made integrated development planning compulsory, and legislated a number of key LED functions, roles and responsibilities. The aim of the Act is

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“To provide for the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities.”

- The LED Guidelines (issued in 2000)
- Refocusing Development on the Poor: LED Policy Paper (2001)
- The Draft LED Policy (2002)
- The National Spatial Development Perspective has made a key contribution to the LED policy debate through its assertion that some areas are better suited to business development and growth, while others should simply be allocated for government services and transfers.
- The Policy Guidelines for Implementing LED in South Africa (2005)
- The National Framework for LED in South Africa (2006), which aims to build a shared understanding of good LED practice and motivate more effective implementation.
- The *Integrated Sustainable Rural Development Strategy* and *Urban Renewal Strategy* of the DPLG

A review of the first term of local government (for the period 2000-2006) was recently undertaken by the DPLG. The review was to a large extent based on the lessons learnt from the implementation of Project Consolidate in selected municipalities, which was a response to low levels of service delivery. This review resulted in a five-year Strategic Agenda for the 2nd term of Local Government (for the period 2006-2011). This Strategic Agenda covers all the roles and responsibilities of the DPLG, including LED.

The Strategic Agenda contains three high-level activities:

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

LED is one of the 5 key performance areas for Local Government in the implementation plan of the Strategic Agenda. As a key performance area, LED as an outcome, is strongly interrelated and dependent on the other four KPAs. These are: 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 focused only on government inputs into *ad hoc* projects.

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In the 2006 National Framework for LED issued by the DPLG there are ten (10) guiding principles identified for the framework supported by seven (7) main objectives and eight (8) main planned outcomes for the period 2006 – 2011. We have presented the contents of the Framework in this regard in detail, since comparing these guidelines and objectives with what is actually happening on the ground in municipalities provides some useful insights:

The guiding principles are defined as:

- (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* (our italics) 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* (our italics) centred on the application and localization 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* (our italics) whose threats must be minimized and whose opportunities must be exploited.
- (viii) *Private companies* (our italics), 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 startups.
- (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.

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- (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.

The associated Toolkit released by the DPLG provides some guidelines on how municipalities can go about meeting these objectives.

Planned Outcomes of the Framework to be achieved by 2011

- (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.

Although there is general agreement on the desired outcomes of LED – reduced poverty levels, higher employment, better equality, etc – there have been (and still are in many instances) considerable differences between what the role of local government should be in achieving these outcomes. In very simple terms, one key policy debate has been between those who believe that LED should provide a direct solution (through job creating projects) and those who believe LED should provide an indirect solution (through the creation of an enabling environment to encourage business development and growth and increased skills demand and supply).

This debate, together with the problems experienced by many local authorities in designing and implementing an effective LED strategy, resulted in two major efforts by the DPLG to formulate a national policy framework for LED. The first resulted in a document entitled **Refocusing Development on the Poor** (in 2001) and the second resulted in the **Policy Guidelines for Implementing Local Economic Development in South Africa** (in 2005). The latter contains some key policy shifts, enhancements and clarifications. Importantly, the Guidelines are an attempt to align national policy initiatives (such as broad-based empowerment and the focus on the “second” economy”) with LED efforts by local government.

The 2005 Policy Guidelines identify “economic growth and poverty eradication” as the key overarching goals of LED. Importantly, The Guidelines mark some key shifts in how local authorities should approach the achievement of these objectives: Firstly, the Guidelines reject the concept of “community economic development”. Secondly, enterprise development and broad based black economic empowerment (BBBEE) are put forward as the central goals of LED (as opposed to the

local authority designing, implementing and “owning” *ad hoc* projects). Thirdly, the Guidelines specifically refer to the “first” and “second” economy divide, and make targeted support of the second economy a priority. Fourthly, the Guidelines echo the NSDP by introducing the concept of *local competitive advantage*. Finally, the Guidelines give more attention to the role of LED agencies (LEDAs), by stating that LEDAs are an option (but not a requirement) for District Municipalities (i.e. not local municipalities). The Guidelines indicate that the “technical aspects” of LED may be carried out by a LEDA.

2.3. Key Institutional Arrangements and Role Players

Most aspects of local government fall under the national Department of Provincial and Local Government (DPLG). Municipal finances (including the budgeting for and funding of LED strategies) fall under the auspices of National Treasury. The most important piece of legislation in this latter regard is the Municipal Finance Management Act (MFMA).

The DPLG has a Chief Directorate responsible for LED, and the LED programme is intended to

“... maximise the economic potential of all municipal localities throughout the country and, to enhance the resilience of the macro-economic growth through increased local economic growth, employment creation and development initiatives within the context of sustainable development. The “local” in economic development points to the fact that the political jurisdiction at a local level is often the most appropriate place for economic intervention as it carries alongside it the accountability and legitimacy of a democratically elected body.” (DPLG)

The LED Programme of the DPLG provides input and support in the following areas:

- Development and review of national policy, strategy and guidelines on LED;
- Providing direct and hands-on support to provincial and local government;
- Management of the Local Economic Development Fund;
- Management and Technical Support to Nodal Economic Development Planning;
- Facilitating coordinating and monitoring of donor programmes, and
- Assisting on LED capacity building processes.

In May 2003 Cabinet approved the establishment of the **IDP Nerve Centre (IDPNC)**, as a tool to support the flow of strategic planning and project-based information across government. The IDP Nerve Centre is a web-based system that was intended to allow multiple organisations, involved in municipal service delivery, to capture and maintain their own strategic priorities, resource allocations and programme of implementation over a multi-year period in a consistent manner, thereby enhancing interpretation and ease of use by external stakeholders. Although not all of these goals have been achieved (most notably, the only real contributors are district and local authorities, and there is not much consistency in evidence) the IDPNC does provide a very useful resource for any party that wishes to compare and/or create benchmarks for LED strategy and content.

The respective roles of national government, provinces, district municipalities, metros and local municipalities are not always clear, and sometimes overlap. The 2005 LED Policy Guidelines have attempted to provide some guidance in this area.

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The main role for national government in LED is described in the Guidelines as that of coordination of public policies and investment programmes. The role of provincial government is described as having two main parts: Firstly, each province has a coordination role: They are responsible for resources allocated from national to provincial government and for ensuring that these are correlated with the priorities of the various IDPs. The Guidelines indicate that provinces should establish LED fora to carry out the work of the National LED Forum at the provincial level. Secondly, provinces have a role to play in building the capacity of municipalities to undertake LED and in supporting them in its implementation.

According to the Guidelines, dedicated LED units should be set up in all provincial governments, district and metropolitan municipalities and, where possible, in local municipalities. The Guidelines indicate that district municipalities and metros should play a “leading role” in LED. Finally, the Guidelines emphasise the importance of including a range of local stakeholders into “LED networks”.

In addition to the various spheres of government, the Sector Education Training Authorities (SETAs) and SEDA (Small Enterprise Development Agency) all have a potential role to play in supporting LED initiatives.

The Local Economic Development Agency (LEDA) is a relative newcomer to LED in South Africa. There are currently more than 30 LEDAs across South Africa, operating at the District and Local Municipality level. However, they have had very different levels of success, and there is not always agreement among the various LED role players as to exactly how these agencies should operate and how their mandate should differ from and be integrated with the LED responsibilities of the local authorities. Certainly agencies can provide a more focused forum for building strategic partnerships with the private sector; have a more “logical” spatial component to their strategies since they are not bound to a local area; and are generally in a better position to leverage LED funding than individual local authorities.

Experience has shown that LEDAs work if there is a clear strategy in place, strong leadership, political and private support and driven and highly competent experts. The positioning of the LEDA at district, rather than local level also appears to be a factor in leveraging more effective and practical spatial development strategies.

There are certain foreign donor organisations in South Africa that have a specific focus on LED issues. The most important country in this regard is Germany, whose main focal sectors are local government and good governance. The EU itself has focused LED support on KwaZulu-Natal, the Eastern Cape and Limpopo. All three of these programmes have a strong focus on increasing the capacity required for more effective LED.

3. KEY ISSUES

3.1. The Global Context

LED is a relatively new concept in South Africa and, as a result, some of the more contemporary ideas around the role and implementation of LED are either not known or embraced by many practitioners. In this section we have briefly considered some of the key contemporary concepts that are particularly relevant to South Africa.

Internationally, there is much agreement over what doesn't work in LED (such as government-led *ad hoc* projects), but not very much agreement over what does work. However, some of the most important contemporary ideas are around the following:

- (i) The role of institutions in supporting economic development, and the corresponding role of LED agencies in strengthening these institutions;
- (ii) A shift in the role of government from intervention/participation to enablement;
- (iii) An increased focus on "soft" infrastructure and the role of new enabling technologies, rather than traditional hard infrastructure;
- (iv) The idea of economic clustering, which states that a concentration of economic activity supports competitiveness;
- (v) The realization that spatial economic structures and spatial local government boundaries seldom coincide;
- (vi) A move towards market-based enterprise support structures; and
- (vii) A focus on improving locational advantage.

Many of these ideas are relevant for South Africa, but are seldom understood by LED practitioners, or indeed even well known to them.

3.2. Key Issues and Challenges in South Africa

Getting LED to "work" in South Africa is a critical success factor in addressing poverty and inequity. However, there are a number of key issues to be addressed and challenges to be overcome before this will be a reality. In this section we have presented an overview of the most important obstacles to more effective LED planning and results. Based on this analysis, we have then (in the next section) identified the key areas where there is a role for SALGA to play.

We have identified the key issues as:

- (i) A lack of common understanding of the role of LED and LED processes;
- (ii) An increasing urban-rural divide in LED processes and practices;
- (iii) The practical spatial constraints of economic planning at a very local level;
- (iv) A less-than-effective working relationship between provinces, districts and local authorities;
- (v) A lack of effective LED "networks" in many areas;
- (vi) The inability of many local authorities to clearly define a LED strategy within the broader IDP process; and

(vii) A lack of planning resources and capacity.

(i) A lack of common understanding of the role of LED and LED Processes

The definition - and substance - of LED has been hotly debated in South Africa since at least the transition to democracy in 1994. A quick review of a selection of recent published IDPs makes it quite clear that there is not one common approach towards the development of an LED strategy.

The main areas where there is divergence of opinion are around what constitutes an effective and sustainable LED strategy and the role of the local authority in that strategy. What policy makers and legislators are realizing is that the fact of having an LED plan does not automatically mean that LED will occur.

The large body of policy and legislative documents that bear on LED in many ways are contributing to the confusion since it is not always clear exactly how practitioners in local authorities are meant to prioritise, interpret and apply the various policies.

Further, there is no real central and effective oversight of the content of IDPs, from a qualitative point of view. This can clearly be seen in the fact that, although the current DPLG approach is that LED is not about projects, the majority of the LED strategies contained in the 2008 IDPs from smaller local authorities are almost entirely project-focused. It is also not always clear to many smaller local authorities exactly what their planning priorities should be, in the face of conflicting signals from central government, which often have unintended consequences. One good example of this is the recent focus on disaster management planning by DPLG, which has resulted in the IDPs of many smaller local authorities having much more space devoted to disaster management than to LED. This is indicative of the fact that these municipalities do not really grasp the fact that LED should be a central priority area for them.

Another area where the lack of common understanding is contributing to poor LED results is that of the respective roles of various key parties, particularly between the province, the district and the local municipality. It is not at all clear that there is effective alignment of priorities, and often the various stakeholders are not working together to achieve a common goal.

Until there is real congruence of thought around what LED is, how LED strategies should be developed and the role of these key stakeholders, progress will be very slow.

(ii) An increasing urban-rural divide

One of the most important challenges for South Africa to address is its historically very inequitable economic structure, where relatively few people own most of the economic assets and benefits. Strategies such as BBBEE have been developed specifically to address this issue. However, the average level of inequality across South Africa is not declining, and in many instances it is increasing. One measure of this inequality is seen in the increasing divide between urban and rural areas: Job opportunities, real incomes and real standards of living in the former are increasing significantly faster than in the latter.

There are obviously a number of factors that contribute to this divide, many of which are structural in nature, and reflect the locational advantages and economies of scale benefits of metro areas. In addition, the relative development and progress of national growth strategies is also affecting the urban-rural divide. Industrial and strategic sector policies tend to favour metro areas, where most of these businesses are located. Many of these policies and initiatives have been effective, and metro areas have benefited accordingly. In contrast, South Africa has a fairly depressing history of failed agricultural policies, particularly those around land reform and communal and emerging farmer support. These tend to impact disproportionately on rural areas.

However, it is also true that the best performing metro areas (such as Joburg) have outperformed the average not just because of these factors, but also because of their LED advantage. The larger metros tend to have a much greater focus on the development and implementation of effective LED strategies, much stronger LED networks, and access to better skills and resources. In most metros there is a dedicated economic development planning unit or department reporting to a designated councillor, and a good understanding of contemporary trends in LED processes and practises. There is also a much greater pool of funding available for LED initiatives in the larger metros.

In contrast, recent surveys have shown that most of the smaller municipalities do not have a designated councillor responsible for LED, and nor do they have dedicated LED teams. This failure to prioritise LED is one factor contributing to divergent growth rates. Finally, the divergence between actual developments in cities and rural areas makes universal LED policy development and implementation difficult.

However, the urban-rural divide does provide some opportunities, in that the lessons learned by the best-performing metros can now begin to be put together into some sort of local best practise guidelines for smaller municipalities. It should be more effective for small municipalities in Gauteng to learn from the experiences of Joburg than from a regional development agency in the UK, since they operate under the same policy environment as the former. It is important to note that many local officials in small municipalities believe that the comparatively better economic performances of the bigger metros are due only to structural and resource advantages, rather than crediting the role of better LED processes and practises. Greater interaction between LED officials and departments and the sharing of ideas and resources will go a long way towards dispelling this idea, and could be a key factor in getting smaller municipalities to approach and prioritise LED in a more effective manner.

(iii) Practical spatial constraints of economic planning at a very local level

All the policy guidelines allocate considerable responsibility to local authorities to develop and implement LED strategies for their own local areas. However, the reality is that almost all economic activity has a strong spatial component that very seldom coincides with the borders of those local areas. This is particularly the case in South Africa, where economic activity tends to be concentrated in relatively few enterprises with wide geographic reach.

A modern economy has a strong spatial component as a result of long value chains, specialisation and the optimisation of economies of scale. As a result, there are very, very few self-contained truly "local" economies. In practise, a local area will contain some of the components of a value chain

and/or the potential to be competitive in other components of a value chain. In very general terms, the more remote and under-developed a particular area, the less likely it is to have a self-contained economic structure in the same way that a large metro may have, and the greater the leakages out of and injections into the system from other areas.

However, there is very little in the current DPLG LED policies or guidelines for LED practitioners in South Africa that deal specifically with this issue. Instead, the implied assumption is that each local area is indeed an insular economy, and that the role of the LED strategy is to develop this. This is the main reason why so many LED strategies are in fact community projects, since it is far easier to conceive a distinct project in a local area than to try and come to grips with the details of the spatial economy in which that local area is located.

The “Sector” approach of much of South Africa’s economic and industrial policy contributes to the problem, since sector strategies also generally do not take account of the spatial reality of an economic structure. In addition, a “sector” does not necessarily coincide with a value chain, and the value chain is often the best starting point for identifying real economic opportunities.

Rather than considering their particular local area as a self-contained economic island, and trying to develop strategies on that basis, it would be far more effective for LED practitioners to learn how to analyse and assess those value chains that are relevant for their own local areas, and on that basis to identify opportunities. A better understanding of the spatial economy, and the relative location of their own municipality, would also be extremely useful, although there are limited data resources available in both these areas.

(iv) A less-than-effective relationship between provinces, districts and local authorities

This issue is related to the one discussed in (iii) above, as well as how the roles of the various stakeholders are understood. Although the LED planning undertaken by provinces, districts and local municipalities is clearly intended to be aligned, in practice this is seldom the case. Although local IDPS almost invariably refer to national, provincial and district priorities and strategies, it is much less likely that the content of these local LED plans actually encompass and include these. This is a key issue: While a component of an IDP such as housing does not really suffer any negative consequences for being considered only at the very local level, the same is certainly not true of LED. However, since many of the components of an IDP do not require a good working relationship with an adjacent local authority, there is no real pressure to consider this

Local LED officials tend to take a very literal view of “local” as opposed to understanding that their local economy is organically and irrevocably linked to the district, the province, the national economy and indeed the global economy. Finally, it is not clear at all how the resources allocated to the development of detailed plans at the district and the local level are adding any value on the ground. Given the resource-constrained environment in which many local authorities are operating, it would make better sense to investigate how this process could be streamlined and made more efficient and relevant.

We believe that many of the issues that make local LED planning less than successful could be addressed if there was a more integrated and spatially relevant relationship in the development and

implementation of LED strategies between provinces, districts and local authorities, and particularly between local authorities within a district, and between adjacent districts (no matter which province they are located in).

The fact that development agencies are conceived of at the district rather than the local authority level is another important reason for closer co-ordination. If there is not a good alignment between districts and local authorities in these instances, the ability of the agency to add equitable value will be limited.

(v) A lack of effective LED “networks” in many areas

There is general agreement that strong LED networks are a key success factor. The idea of LED networks is mentioned in several places in the DLPG’s Policy Guidelines, but only in general terms, with little practical guidance for local authorities on how these should be established or maintained, or how to extract value from these networks.

Generally, larger metros have been much more successful in establishing effective LED networks, particularly with the private sector, although many of these are still fairly new and need to be deepened. The value of these networks has been in a more participatory approach towards the development of strategies, and a focus on the different roles in LED for the local authority and private enterprises. An LED department or unit is more likely to adopt a facilitating/enabling role for local government in the presence of such strong and well-functioning networks. In contrast, where there are no such networks, and very little interaction between the local authority and the private sector, the local authority is much more likely to interpret its role in LED as participant, rather than facilitator.

All local authorities accept the need for inclusion and participation in the development of LED strategies, but how they actually view who should be included and how, differs considerably. In general terms, smaller local authorities tend to place a much stronger (sometimes exclusive) focus on “participation” by marginalized communities, rather than the private sector and organised business. In contrast, most of the larger metros are working hard to build LED networks with private business. There are some good historical reasons for this approach, and the failure to create effective networks is not always the fault of the local authority. There are often deep divides between (predominantly) white and (predominantly) conservative business interests in many areas and the local authority which are not conducive to building the kind of relationships which support effective LED strategies. Once again, this position is exacerbated by a misunderstanding of the role of the local authority in LED.

It is key that all local authorities have a better understanding of their LED responsibilities, and the central role that effective LED networks can play in more effective LED strategies. Achieving this will require many local authorities to build much more inclusive relationship with private business, other political parties and NGOs.

(vi) The inability of many local authorities to clearly define an LED strategy within the broader IDP process

The legal planning requirement for districts and local municipalities is an Integrated Development Plan (IDP) which must contain an LED section. Therefore, LED planning is seen as part of wider development planning. Although this approach is correct, and if local authorities were correctly interpreting their LED role as facilitators and enablers, this linkage would be even more important, but the reality on the ground does not always reflect this outcome.

In reality, smaller poorer local authorities have historically faced the most pressure from residents for improved service delivery, rather than effective LED strategies. Most of these local authorities have interpreted “pro-poor” development planning as meaning the delivery of services such as housing, water, etc. rather than creating a more competitive environment for business. This different understanding of LED is, we believe, exacerbated by the integration of the LED process with the broader IDP process: Most of the content of the average IDP deals with the tangible goods and services that the local or district) authority will deliver directly to citizens. It is very easy then to stretch that thinking over into the LED part of the IDP, with government as the key participant, rather than an enabler.

In truth, however, effective LED strategy involves a very different role for government, and a different way of thinking about the drivers of poverty and the drivers of sustainable poverty reduction. Therefore, it may make better sense for the LED strategy to be formulated independently of the other IDP issues, although both plans should obviously be well aligned and supportive. Such a separation would allow the space required to look at the problem from a different perspective, and facilitate different skills and resources.

(vii) A lack of planning resources and capacity

Most smaller municipalities simply do not have the in-house skills or the resources to purchase outside skills that are required to develop effective LED plans. They lack economic, business and general planning skills. This results in a generally low quality of LED plans, characterised by:

- (i) A focus on projects;
- (ii) Unrealistic targets; and
- (iii) A clear inability to identify the real drivers of economic development and opportunity.

Contributing to this is the fact that there is little or no oversight over the qualitative components of the LED plans, and therefore very little feedback for local authorities as to the real reasons why LED initiatives have not had the desired results.

Acquiring these skills is a difficult and lengthy process, and involves a great deal more than just training. LED officials need more effective tools that are focused on the real LED challenges, such as accurate economic data and value chain analysis. Although most local authorities included an economic profile of their area in their 2008 IDP, the main source of data was the 2001 Census, which is not only outdated, but also does not contain any meaningful macro economic data, since it is largely concerned with the position of individuals, not enterprises.

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Only a very small handful of metros and local authorities can afford to purchase more updated and relevant data from one of the private vendors, or employ someone who can make sense of the data. The skills required to undertake specialised spatial and value chain analyses are beyond the reach of almost all local authorities.

4. STATE OF LED: PROVINCIAL SUMMARY

4.1. Eastern Cape: Local Municipalities LED strategies & LED capacity

Whilst it is compulsory for all municipalities to complete an LED strategy as part of their IDP's (MSA, S26), the Province (Office of the Premier, Department of Local Government and Traditional Affairs and DEDEA) also encourages Municipalities to extend these and complete more detailed LED Strategies. Progress with respect to the development of detailed LED strategies is monitored by the EC Province and was reported in the quarterly provincial report on the 5 Year Local Government Strategic Agenda (5YLGSA). The last quarterly report on the 5YLGSA was in September 2009. In this report it is noted that:

- 19 of the 45 municipalities in the province have completed LED strategies (thus 26 municipalities have not completed);
- these 19 LED strategies are aligned to the LED framework.

The provincial 5YLGSA report also reflects on the LED capacity within the 45 municipalities in the Eastern Cape and in September 2009 the following was noted:

- 20 municipalities have LED Managers (thus 25 municipalities do not have LED managers);
- in 43 of the 45 municipalities there is at least one person responsible for LED;
- 19 municipalities have established a functional LED Stakeholder Forum.

The GTZ-SLGP programme undertook surveys in 2006 and again in 2009 in the Eastern Cape Province to evaluate the degree to which LED was embedded in local policy and practice. In the 2009 survey, 3 of the 6 EC District Municipalities (28 of 45 municipalities) were surveyed.

These surveys it found that there had been some improvement in terms of two indicators:

- indicator 1: the number of municipalities with effective processes for LED;
- indicator 2: available human and financial resources and plans for concrete LED processes.

With respect to indicator 1, it was found that whilst there had been some improvement, there was still a great need for further development and in particular further support was required in terms of developing implementation capacity.

In terms of indicator 2, whilst it was recognized that 86% of municipalities have the basics in place, further support is required to 'improve the quality of the processes and plans'.

4.2. Mpumalanga: Local Municipalities LED strategies & LED capacity

The key challenges facing Mpumalanga in Local Economic Development are:

- (i) Lack of understanding of the economic space
- (ii) Non strategically location of Local Economic Development in the organogram of the municipality
- (iii) Misconception of LED as a KPA within the municipalities
- (iv) Lack of stakeholder participation
- (v) Alignment of LED to the IDP process

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There is limited standardisation around the operationalisation of LED within the Province.

Location of the LED "Unit" with the Municipality

Location	Count
Corporate Services Dep	1
Department of Economic Development & Planning	1
Dept Planning and Development	1
IGR and Dev Dir	1
LED/ Tourism (a department)	1
MM's office (Reporting to the MM'S Office)	14
Urban Dev and Econ Serv Dir	2

LED Governance

Location	Yes	No
LED Portfolio Committee	21	0
LED Strategy	16	3 (1 in draft)
LED Forum	9	12

Variations in LED Capacity

Location	Yes	Vacancies
Chief Economist	2 Economists, 1 Transport Economist, 1 secretary, and 1 admin officer	
IDP/LED Manager	1 LED Assistant Dir, and 1 LED Coordinator	LED Assistant Director
LED Manager	1 admin clerk	
LED/IDP Manager	1 Secretary liaison	
ASSISTANT Director: Public liaison	1 LED Assistant Dir, and 1 LED Coordinator	LED Assistant Director
LED/IDP Manager	1 led officer, 1 tourism officer, and 1 admin clerk	
LED Manager	1 Admin clerk	
Section 57 manager	1 LED Manager	
LED/IDP Manager		
Assistant Dir: LED		
LED/IDP Manager		
Director	1 LED Manager, 2 housing officers, and 1 LED Clerk	
LED Officer		
LED Officer		

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Location	Yes	Vacancies
Section 57 Manager: Manager LED & Tourism	1 Deputy Manager: LED & Tourism, 1 Ass Manager: LED, 1 Ass Manager: Tourism, 2 LED officers, 1 Tourism Officer 1 Secretary, 1 Admin Assistant, 1 Intern	None
Senior Manager: LED, Tourism and Trade	1 Admin Assistant 1 LED Manager 1 x LED Officer 1 x Licensing Officer 2 x Assistant Licensing Officer 1 Tourism Manager 1 Administrative officer 1 Trade Manager 1 x Informal Trade Officer 1 x Senior Control Officer 6 x Informal Trade Control Officer	No
LED/IDP Manager	1 LED officer 1 IDP Manager	LED Manager
Director: LED, Planning and the Environment	1 LED Manager , 1 LED officer, and 1 Admin Assistant	
LED/IDP Manager	1 LED officer, and 1 Tourism officer	
Director Planning and Development	Chief LED LED co-ordinator 3 LED field workers	3 LED Managers

Based on the two Indicators as used on the study conducted by GTZ in 2006 and 2009 to assess the State of LED in Mpumalanga:

- Insight and Strategy, and
- Ability to execute

The Maturity of Mpumalanga municipalities in LED has improved in both areas of assessment as stated above.

The Mpumalanga results of 2006 highlighted that:

- Local municipalities lack the understanding of their economic space which leads to the development of LED strategies that are not implementable. Lack of understanding in the comparative and competitive advantage of their economic space and the performance of different economic sectors within the municipality which would allow them to economic decline and also investment opportunities.
- LED Strategies provide information and statistics that are further analysed to assist decision-makers in formulation of appropriate strategies and interventions.

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- LED being located in different Depts in the organogram other than being a stand-alone department. The nonstrategic positioning of LED leads to understaffing and also inadequate budget allocation for the unit.
- Non availability of potfolio committees dealing specifically with LED limiting it's significance in championing the development of local economies.
- Nonexistence of Local Economic Development Forums threatening the stakeholder participation.
- Reviewal and alignment of LED strategies with IDP's leading to these strategies not being adopted by the Council, thus programmes and projects not budgeted for.

The Mpumalanga results for 2009 (with 90 % of Mpumalanga municipalities having at least the basics in place and 76 % having quality plans and processes in place) shows a noticeable improvement since the 2006 survey was conducted. Despite the improvement, to ensure even better results, especially in the area of quality, there is the need for the province to focus on:

- Ensuring quality LED strategies
- Linkage of LED to other plans (IDP, SDF, PGDS, ect)
- Configuration of LED structures and their position within the municipal organogram
- Mobilization of stakeholder structures (portfolio committees, LEDF's, Provincial LED Forum (PLEDF))

4.3. Western Cape: Local Municipalities LED strategies & LED capacity

The Western Cape assessment was made by the LED Unit of the Department of Economic Development and Tourism, of the 30 Municipal IDP's with regard to how effectively the municipality captured its Economic Development priorities and planning for the municipal area within the IDP.

Metro:

- The City of Cape Town reviewed its IDP for 2009-2010 IDP through a community participation process. The City has a compliant and credible IDP, along with an approved Economic and Human Development Strategy. Its budget for the 2009-2010 financial year is responsive and the budget is geared towards strategic infrastructure-led investment.
- The City of Cape Town has sufficient capacity to implement its targeted priorities for the financial year 2009-2010. Although faced with broader institutional capacity problems, the LED component remains fully functional.
- LED objectives are not clearly reflected or prioritised in the budget
- There is no significant prioritisation to sector-focused intervention aside from telecommunications (Fibre Optic project), tourism (with 2010 as an impetus) and the creative industries – of which the link to second economy priorities is not clearly articulated.
- Second economy interventions are limited to the arena of enterprise development. It is not clear how the budget and intended policies aim to create jobs, nor is it clear how it will contribute to an 8% growth target set for the city. LED or Local Economic Area Development plans by the city are not clear in how it will address the priorities of unemployment and job creation which is predominantly reported to be very high.

District and Local Municipalities (General Comments):

- DEDT to assist the District in identification of sustainable LED projects and, through DPP, development of viable Business Plans.

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- DEDT to also assist District in revitalization of LED Forum in the district
- The municipality has an approved LED Strategy and its IDP is credible and aligned to District priorities and the DGDS resolutions. The municipality utilized its socio-economic analysis, which assisted in identifying and prioritizing relevant growth sectors and strategies required. Key growth sectors identified in the IDP include Agriculture, Manufacturing and Tourism.
- The municipality lacks the capacity to identify catalytic projects that will make an impact on LED in the area. Smaller projects, which are identified lacks good business plans. Due to this gap the municipality is losing out on possible funding opportunities and therefore the dire need for assistance in this regard. DEDT assistance to focus on the following:
 - Support the municipality in reviewing its LED strategy and development of an implementation plan.
 - Through DPP, assistance in the identification and development of economic opportunities which can be turned into viable businesses for local people.
- The municipality has an approved LED strategy, which will be reviewed to improve its alignment with that of the District.
- The municipality appears to follow a mixed approach with strategies supporting both economic issues and developmental issues, though they only hint at addressing the objectives in the IDP (ideas are better developed in LED strategy so alignment becomes an important issue).
- The LED plans in the IDP these do not come across strongly – with the implementation plan completed and priorities differing between ED plans in IDP and LED strategy there could be some difficulties encountered by the municipality with regard to implementation with the goal post moving over financial years – they need to consider why these plans were originally developed largely to address spatial inequalities within the area.
- The municipality is utilising own socio-economic profiling undertaken as phase one of the development of its LED strategy. According to this data unemployment is a serious issue, which the municipality faces along with the fact that more than half of the population live on income below the household subsistence level. These statistics are incorporated in both the LED strategy and IDP, however they are not well linked to planned interventions.
- The municipality has indicated that it intends using the LED Strategy to ensure that there is support to local SMMEs, women, youth and people with disabilities – this addresses the programme level however it fails to translate into how interventions filter to ground level.
- The municipality should consider the priorities identified in the LED strategy more closely in completing IDP processes. With an adopted LED strategy informed by a number of stakeholder processes, while interventions therein may be reviewed/amended, long-term ED priorities they address should form the basis for the economic development section within the IDP.
- In the absence of an LED strategy it is unclear what the municipality intends pursuing given the time frames for 09-10. The LED plan is severely limited and initiatives provided for in the IDP document are fragmented.
- In the absence of an LED strategy it is unclear what the municipality intends pursuing given the time frames for 09-10. Projects listed are scattered and provide limited indication of the ED strategic objectives the municipality will be concentrating on.
- The municipality has no dedicated LED personnel and have roped in the support of a programme manager contracted by LGH for assistance. They are currently being supported by Urban-Econ in the development of their LED strategy but it's clear that capacity is not being built within the DM around LED, which will make implementation that much more difficult, given that the Urban-Econ and LGH contracts are ending mid 09-10 financial year.

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- The municipality displays a good understanding of the spatial realities in which it finds itself based on the deploying of a town manager model in order to strengthen the linkage between LED and SDF, which they have reflected well through the development of industrial precincts.
- Funding however is only provided for LED on the functional side and tourism promotion, with more funding and a clearly directed long-term LED strategy the municipality shows a marked improvement in delivering on its LED KRA.
- Significant challenge of the municipality was the absence of an LED manager with the function being performed in conjunction with IDP processes.
- Under LED initiatives, four strategic objectives are identified in the IDP. These are Broadening Economic Participation through targeted Skill Development; Increase assets base of IDP and address skewed land ownership patterns; Reduce poverty by using municipal resources and promote spatial restructuring to create integrated and sustainable human settlement.
- The IDP also incorporates LED Strategy objectives such as Shifting LED to a more strategic approach, coordination of economic development and planning; fighting poverty, improve community access to economic opportunities.
- The LED unit is strategically placed to coordinate LED activities across all other departments within the municipality. It is direct under Municipal Manager and Director Strategic Support.
- Capacity of the unit is still a challenge.
- The municipality is participating on IDP Learnerships programme, which will have positive impact on LED strategy and other interventions.

Common Challenges:

i) Skills

There is a high rate of illiteracy, especially among farm workers. In addition specialised sectors report skills shortages, such as the oil and gas industry. The labour force is largely unskilled, with consequent unemployment in this section being high.

ii) Seasonality

The key economic drivers of tourism and agriculture have a significant down-side in the Western Cape, namely seasonality. In the tourism sector there are certain seasons such as local holiday periods when the population increases rapidly (December for example), only to dwindle out of season. Many South Africans have holiday homes on the coast, which are occupied only in the summer holidays. This places pressure on the service delivery infrastructure as household services must be available all-year round, but they only generate a very limited income in season. Agriculture also has a high season because fruit is a major product in the Western Cape, and it must be hand-picked at a very specific time. Labour is brought in specifically for this season, and places a temporary burden on the existing infrastructure. The supply and movement of labour is not coordinated or managed by any state intervention, which can lead to shortages in some places and over-supply in others. Municipalities often suffer the consequences of this. Labour brokers have sometimes stepped into this breach and have developed unscrupulous practices to which there has been a backlash by the trade union movement. In the absence of a more coordinated regional-level state response to seasonal labour movement, problems will continue to emerge.

iii) Infrastructure and housing

Municipal bulk water and sewerage infrastructure is a serious challenge in the four municipalities. The infrastructure is aging fast, and maintenance is not able to keep the network running sufficiently for new development expansion. Construction is a reasonable strong economic sector in many of the municipalities, but can only continue if bulk infrastructure keeps pace with expansion.

In addition a specific challenge is evident in the need for off-farm low-income housing. There is a significant backlog in some of the municipalities which appears to be driven by in-migration from farms as well as nearby provinces such as the Eastern Cape. People seek employment in small towns, but their economies are not expanding rapidly enough to take up unskilled labour.

iv) Land

Land redistribution and emerging farmer support are listed as challenges in most municipal LED Strategies. Traditionally farms in the Western Cape are large commercial concerns. Emerging farmers lack both access to land and the capital necessary to make a success in the sector. The barriers to entry in agriculture are large in a context where land has a high commercial value such as the Western Cape.

v) Fishing

In the coastal municipalities fishing quotas have led to significant job losses along the coast. Many of the towns are traditional fishing villages, and their way of life has been threatened by massive changes as the industry has been modernized and regulated in an effort to protect fishing stocks. There is also little beneficiation of the natural resource occurring locally, which is a missed economic opportunity for LED.

vi) Lack of economic diversity

The local economies of the four municipal areas are highly dependent on one sector: agriculture. This opens the towns up to significant risk, as failure in this sector causes a chain reaction in the local economies which can be devastating. Spreading risk across more sectors is an ambition for many rural towns in the Western Cape.

vii) Planning

Spatial segregation and inequality are clearly visible in most municipal areas. Apartheid planning has left its mark, and is difficult to erase. The intersection between race and class has meant that while legal barriers to integration are gone, structural impediments remain. The skills and financial resources necessary to tackle this complex problem are beyond the reach of most small towns in the Western Cape.

viii) Water Shortages

Water availability is a problem in a number of municipalities. Droughts are frequent, and have a huge impact on the agricultural sector, which is a mainstay of the local economies. Most farms are large commercial concerns and are irrigated.

ix) Access to finance for entrepreneurs with no collateral

The informal economy is significant in terms of survival strategies for poor people in many municipal areas. Informal businesses tend not to take the step into the formal economy due to a lack of access to capital for entrepreneurs. The major obstacle is the lack of collateral or any form of guarantee. Commercial banks are risk-averse in the context of the global recession and banking crisis. Credit tightening required by regulations is making access to credit more difficult. Skills for preparing bankable business plans are also expensive and therefore often inaccessible.

4.4. Free State: Local Municipalities LED strategies & LED capacity

Most research undertaken into the impact of LED projects in the province reveals a distressing picture. Few, if any, projects have become sustainable; few if any permanent jobs have been created; there are concerns over project mismanagement; and the lack of adequate business and market planning and training inhibits success. In addition, projects seldom seem to involve the private sector and it is apparent that poverty is not really being addressed.

The experience of LED in the Free State clearly reveals what recently was described as a 'mixed balance sheet' (Nel et al., 2002). In a recent unpublished document, DPLG conceded that there are currently a range of policy initiatives – such as pro-poor LED, the Urban Renewal Strategy, SMME development, and economic empowerment – “that impact more or less directly on local economic development and [that] have yet to be assimilated into a coherent LED framework that addresses the aims of economic growth, employment creation, equity and poverty alleviation” (in Nel and Rogerson, 2004). Some of the key issues identified by a range of authors (Nel et al., 2002; Tomlinson, 2003) are:

- The failure rate of initiatives is high;
- In many ventures, particularly in smaller centres, there is only limited private sector involvement;
- What is being achieved is the provision of facilities of a global standard in certain localities versus constrained achievements in the poorer areas;
- The 'politicisation' of development is an issue, where individual interests override the greater common good;
- Projects appear to move through a 'life-cycle' which often sees the demise of once-promising endeavours;
- There is a clear problem of grant dependence and the limited sustainability of many projects;
- The economic aspects of projects, especially the marketing of products, are often neglected in planning and often threaten project sustainability;
- A question needs to be raised as to whether local authorities should be driving economic development and job creation, or whether local governments should rather be facilitating it.
- Many regard LED as an 'unfunded mandate' i.e. local governments are required to pursue it, but lack the necessary funds and staff;

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- There is a clear need for more training, facilitation and funds;
- In Rogerson's view, '...the most distinguishing feature of South African Local Economic Development policy is the new emphasis on a strong pro-poor focus in rhetoric, albeit if not always in practice' (Rogerson, 2000:408);
- There is currently inadequate facilitation and support;
- There is a possible ideological conflict between GEAR and socially responsible programmes;
- Community-focused programmes are often difficult to sustain, because of high staff turnover, limited resources and capacity.

Free State Conclusions

While national government's role should be to provide overall guidance, direction, policy support and funding, it also needs to ensure that the projects which it supports are viable and sustainable. Provincial government has a key role to ensure that weak municipalities are supported and encouraged to assist poor communities and to embark on viable projects. Local government must ensure that its staff are adequately trained, that partnerships are striven for at all costs with local stakeholders, that funds are accessed and investment sought. LED should, ideally, be driven from the office of the Municipal Manager, or a dedicated municipal department, BUT it should work through a multi-stakeholder forum.

It has been observed that, while there is no clear spatial pattern with regard to LED successes, better resourced and staffed areas fared better than their poor counterparts in improving and stimulating local economies.

The formation of partnerships in Free State towns is sadly lacking in most centres, and government and local government need to learn from the positive experiences and success of KwaZulu-Natal, Western and Eastern Cape and Gauteng. The effective collapse in dialogue between stakeholders in some of the Free State towns does not bode well for the future. In the smaller centers, there are only a limited number of stakeholders, all of whom need to be involved in the process. Failure to do this would seem to be causing accelerated economic and infrastructural decline and rising poverty.

LED units need to be well-funded, and need to work with all key stakeholders. There is clearly a need to institutionalise the process in terms of a provincial LED unit and local-level units which work through forums composed of key local level stakeholders.

4.5. North West: Local Municipalities LED strategies & LED capacity

The understanding of LED within LG remains an issue. As highlighted in the SALGA NW LED Workshop, held in Rustenburg:

- There are different understanding / expectations from the 3 groups with respect to LED
 - Community: Expect assistance with SMME funding
 - Local Gov Official / LED officers
 - Politicians

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- Community Development, Focus on small business and co-ops, do not understand commercial business or driving investment, leveraging investment, competitive or comparative advantage
- There is therefore a disconnect between the groups, therefore wrong message goes out
- It was agreed that for LED to work there needs to be agreement:
 - Between officials and politicians about what is going to be achieved
 - Between LED and Infrastructure
 - Common Understanding and alignment to PGDS, DGDS and LEDS
 - The role of LED is to facilitate LED processes within municipal areas

The following challenges were raised:

Issue	Concerns
Capacity	<ul style="list-style-type: none"> ● Isolated LED units without capacity. LG is unable to develop practical measure to make an impact ● This leads to a lack of credibility as they are not able to implement.
Placement of LED within Municipality	<ul style="list-style-type: none"> ● no standard approach as to the institutional arrangement for LED ● Being a unit / directorate limits the effectiveness of directing LED ● As LED Cuts across all LG functions, it should be housed in the office of the City Manager to best leverage spend of the others ● Therefore a generic structure affects implementation of LED as it is not Top Lead and customised to the Local Conditions. ● Need to move away from SILOS ● Often LED Strategies are in place based in engagement and research (e.g. Rustenburg) but funds / will are not in place to implement.
Budgets	<ul style="list-style-type: none"> ● Infrastructure gets majority of Budget yet Economic Development and economic growth not happening? ● Issue of Confusion of LED / Infrastructure Mandate ● Infrastructure spend does contribute to LED and Job creation ● Without Commitment – infrastructure takes the lead and LED remains unfunded
Functioning LED forums	<ul style="list-style-type: none"> ● District support teams need to include input from Agriculture EPWP, Social and discuss the role of each ● There needs to be alignment.

4.6. Summary of Findings of Provincial Inputs

i) LED Strategy Development

There is a historical dependence on consultants to prepare LED Strategies for municipalities. However municipalities are expressing a desire to take back the formulation process and build internal skills among LED staff. LED strategies vary in terms of quality. Very few have an implementation plan attached, and few have a dedicated budget attached. Many of the strategies suffer from a lack of prioritization. Key choices between alternative approaches are avoided, which

leads to lengthy strategies which cannot be effectively implemented due to staff and resource constraints. The most effective of the four LED strategies is also the shortest, because a real prioritization process took place to narrow down and focus action clearly.

The LED strategy development process needs to be simplified across the board and made more accessible to both residents of the municipalities and municipal staff responsible for the development and implementation of the strategies. Salga has a significant role to play in this process, and could effectively use its economies of scale to support municipal LED departments to produce better, more sustainable and locally-owned strategies.

ii) Position of LED section and reporting

Ideally the LED section should be placed directly under the Municipal Managers office, and staff should therefore report to the Municipal Manager directly. Where LED falls under a different department (such as Corporate services), it is often not given the attention it deserves. The cross-cutting nature of LED means that it does not sit well in any department other than the Municipal Managers office, where there is a comprehensive overview of municipal functioning.

iii) Capacity Constraints

Municipalities do not always have sufficient skilled staff in their departments to implement their strategies however. In addition access to project finance is a constraint for some municipalities where projects have been identified that require significant capital (such as infrastructure provision). Only when economic potential is combined with significant capacity can there be positive economic growth.

iv) LED Strategy Appropriateness

LED strategies need to speak to local conditions and challenges. These need to be broadly aligned with district strategies, but often vary in quality. For each municipality to produce a fully-fledged LED Strategy is a costly and lengthy process, with municipalities relying heavily on consultants for data and analysis. There is a trend among consultants to cut-and-paste across municipalities when it comes to LED Strategies, which undermines the “localness” of the strategy and brings into question the validity of a full-blown strategy at the micro-level.

Many of the high level strategy decisions for these municipalities could be more effectively taken at district level. Economies can be understood at regional level more effectively than at the local micro-level. However, there is still value in each local municipality producing an LED implementation plan, that elaborates on the high level strategic choices taken regarding growth sectors for example. Local opportunity could be identified within a framework identified at district level. Data could also be analysed at district level, and then disaggregated into the local implementation plans.

v) Economic Intelligence Requirements

Aside from the standard demographic data Local Municipalities must also have access to annually updated sectoral economic data showing performance disaggregated down to their municipal boundaries. This is necessary to inform strategy choices as well as assess impact on the local business enabling environment. Municipal staff need to be capacitated to manipulate, interpret and analyse this data themselves. This implies licensing municipal staff with companies such as Global Insight, and providing them with basic statistical analysis skills. These licenses are very costly at the moment. There is potential for SALGA to play a role in terms of organizing group licenses for its municipalities, and leveraging customized training for LED staff in future. Currently private consultants tend to have a stranglehold on economic data, forcing municipalities to pay a premium for information which should be provided free of charge by the state.

vi) Stakeholder relationships

Each municipality has its own stakeholder consultation arrangements around LED. Two of the four P3 municipalities had no formalized LED forum prior the introduction of the P3 project. The project introduced LED Roundtables for all municipalities to connect with business stakeholders especially, around concrete business enabling tools such as red-tape reduction, business retention & expansion, and leak-plugging in the local economy. This has proved very popular and successful, with formal business especially expressing enthusiasm for sustained contact and joint action. Surveys eliciting input from business have also been warmly received. Clearly the conditions are ripe for better municipal-business partnerships to improve local economies and build trust between stakeholders. The key to success however is action taken between quarterly meetings, which proves the forum to be more than merely a 'talk-shop'. These actions need not be resource-intensive. The application of LED process tools can form an effective basis for action. Only operational budgets are required for such processes. SALGA could provide technical expertise and guides/manuals to popularize these tools and render them simple and accessible.

vii) Monitoring and Evaluation

Municipalities have very limited M&E capacity and systems. Surveys such as public opinion surveys are generally beyond their means or capacity. SALGA could play a role in terms of building this capacity, and could possibly offer an in-house unit to provide such services to its municipalities. Any donor-funded LED projects at municipal level are likely to have their own M&E requirements however.

viii) Role of SALGA

SALGA has a significant role to play in organizing municipalities according to their needs (capacity, data, technical expertise etc), and leveraging assistance on a clustered basis. SALGA could also develop in-house support units to assist municipalities on a cost-recovery basis in future. This would serve members needs directly, and create an association that is the provider of choice for municipalities. The practical experience would give SALGA the evidence it needs to bolster its policy interventions at national level.

4. DEFINING A ROLE FOR SALGA

4.1. SALGA's Mandate

An assessment of the issues set out above could result in any number of initiatives to improve the quality of LED process, practise and results across South Africa. However, not all of these will be appropriate for SALGA, given its own particular mandate, resources and positioning.

SALGA's mandate is clearly defined as:

- Supporting and advising its members.
- Engaging with stakeholders and lobbying them and advocating on issues in the interest of member municipalities.
- Representing members as the employer body.
- Contributing to the positioning of local government - locally, regionally, and internationally.

SALGA is just as clear that the following is not part of its mandate:

- Direct support to any one local authority in terms of LED planning and/or implementation.
- Direct delivery of services designed to support and or enhance the quality of LED planning and/or implementation.

The National Directorate of Economic Development and Planning within SALGA has as its key objectives the following:

- To assist local government in developing LED programmes that ensure that priorities and policies determined at a national level are rolled out at provincial and local level.
- To represent local government on initiatives of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA).
- To be involved in the next phase of EPWP.

In achieving these objectives, the National Directorate is bound in its choice of strategies by the mandate of SLGA described above. With these constraints in mind, we have identified possible roles for SALGA in addressing the key issues highlighted. These are set out below, and in the next section we have formulated these into an action plan and a one-year business plan.

4.2. Possible roles for SALGA

We have identified the following as the key areas where SALGA has a role to play, is mandated to do so, and has a certain advantage over other stakeholders. We have set these roles/intervention out in order of priority, in terms of their importance in addressing all the issues discussed above:

- (i) Raising the profile of LED within local authorities;
- (ii) Contributing to a common and better understanding of LED and specifically the most appropriate and effective role for local government in LED;
- (iii) Lobbying key stakeholders to support the development of capacity and technical tools that will assist local authorities in better understanding the demographics and dynamics of their local economies;
- (iv) Working with members and other stakeholders to encourage better co-operation between logical spatial and value chain economic units, as opposed to the current planning norm of strict official spatial demarcations; and
- (v) Working with members and other stakeholders to promote the concept of and the practical issues around LED networks.

It is important to remember that many of these initiatives are inter-linked and co-dependent.

(i) Working with members to raise the political and actual profile of LED within local authorities

The fact that LED has such a low political and operational profile within so many local municipalities is a key issue. SALGA could be involved in addressing this by drawing up a set of "LED best practise guidelines" which emphasise the importance of:

- (i) Having a counsellor who is responsible for LED.
- (ii) Having at least one official employee who is responsible for the operational LED issues within the municipality.
- (iii) Producing a separate and detailed LED strategy and action plan, in addition to that contained in the IDP.
- (iv) Including progress updates on the LED action plan in all council meetings.
- (v) Producing a separate and detailed LED annual report, indicating progress on achieving stated objectives.
- (vi) Identifying and accessing existing sources of funding for LED and LED capacity building.

(ii) Contributing to a common and better understanding of LED and specifically the most appropriate and effective role for local government in LED

A lack of a common understanding of LED, and specifically the role of local government in LED (the participant – enabler divide) is an important stumbling block to more effective LED. SALGA is in a good position to work to change this, given its local government networks.

In achieving this goal, the key issue will be to make LED practitioners realise that the role of government as enabler is better for long-term sustainable pro-poor development than the role of participant, rather than just re-writing a set of policy documents. Until LED practitioners can see tangible evidence through detailed case studies and a critical assessment of their own LED experiences that the project-based approach does not work, they will continue to take that option.

Therefore, training and learning in this regard should focus on how and why the creation of an enabling environment impacts on real economic variables such as employment and income. LED practitioners cannot be expected to adopt a completely new way of approaching LED unless they have a good understanding of the processes by which their actions impact on the real economy.

The preparation and dissemination of case studies around these issues will probably provide the most useful starting point for changing perceptions. Encouraging LED officials to be more analytical in their preparation of annual reports will, over time, contribute to a much better understanding of how well they are doing in creating an enabling environment.

(iii) Lobbying key stakeholders to support the development of capacity and technical tools that will assist local authorities in better understanding the demographics and dynamics of their local economies

The fact that many local authorities do not have up-to-date and/or relevant economic data about their areas is a major impediment to their ability to develop sensible LED strategies. The DPLG (possibly via the IDPNC infrastructure) could be in an excellent position to address this in a relatively cost-effective manner.

The most important data for local authorities is:

1. Annual data (as opposed to the current 5-year gaps in the census data) so that they can track actual progress in LED indicators and outcomes.
2. Basic demographics: age, highest level of education, unemployment and location.
3. Employment: Number of employed persons, type of employment (full, part time etc), sector in which people are working, level of job (skilled, semi-skilled, etc).
4. Sectoral analysis.
5. Infrastructure and infrastructure capacity.
6. Enterprise analysis: Number of companies, sector, size of companies, etc. This last set of data is probably the most difficult to put together, but is particularly important in terms of creating more effective LED networks, and in obtaining a value-chain view of the local economy.

This may seem to be an unrealistic list, but it is not: Data sets 1 – 4 are available from a number of South African commercial data providers, and most local authorities will already have at least a portion of data sets 5 and 6, through the various data collection exercises undertaken for documents such as their SDFs and IDPs, as well as applications for funding grants such as the MIG. In many cases, simply consolidating existing data into a standardised template will provide an extremely useful starting point.

The sooner work starts on such an initiative, the sooner benefits will begin to accrue. Commercial data providers can be approached to make available a limited database for the use of local authorities at a reasonable price. SARS will also be a very important potential partner, since their VAT records are probably the most reliable indicator of enterprise activity since the abolition of the RSC levy. To date SARS has been very reluctant to share data with anyone, but they might be persuaded by the national importance of this initiative.

Chambers of commerce, business associations, employer associations and professional organisations are all important additional sources of information.

As we have discussed above, having a better understanding of how the local economy is integrated into the district, the provincial, the national and the global economy is a key factor in LED officials being able to develop more relevant strategies. This requires LED officials to have the following capabilities:

1. The ability to assess their own local economies in terms of value chain positioning and geographic integration. That is, LED officials need to understand how the enterprises in their area are linked into value chains and linked into neighbouring regions.
2. The ability to assess relevant value chains in order to identify opportunities that are relevant for their own areas.
3. The ability to identify areas where co-operation across local municipalities, districts and provinces will add value.

This requires that LED officials begin to analyse their local economies from a very different point of view than they have done it to date. Obtaining this kind of understanding is also dependent on the creation and maintenance of efficient LED networks, since the members of these networks will provide very valuable insights into the spatial and value-chain economy.

Responsible officials should be encouraged to begin to incorporate these concepts into their LED plans. The key role for SALGA here will be to lobby the DPLG to ensure that appropriate references are included in any updates to the Policy Guidelines, Framework and associated toolkits, and also that awareness is created among LED practitioners, and capacity building is initiated. For example, DPLG could make it mandatory for spatial economic and value chain analysis (even at the most basic level) to be included in the IDPs. The toolkit could then be amended to include a detailed section on such analysis. SALGA could be responsible for facilitating capacity building around these issues.

(iv) Working with members to encourage better co-operation between logical spatial and value chain economic units

Once LED officials begin to look at and analyse their local economies in terms of value chains and geographic networks, and once they begin to build and use LED networks, the benefits of better co-ordination across municipal and provincial borders should become much more apparent.

SALGA has an important role to play here in:

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- (i) Working with members to identify logical spatial “clusters” of municipalities in key sectors and industries;
- (ii) Creating the fora in which these members can meet and exchange ideas and compare notes, and perhaps even collaborate on the development of their LED strategies; and
- (iii) Working with DPLG so that local authorities are encouraged to work together in developing their LED strategies where this is spatially logical, rather than as islands of development.

(v) Working with members and other stakeholders to promote the concept of and the practical issues around LED networks

Contemporary thinking around LED places a strong emphasis on the importance of LED networks, particularly those that engage key participants, such as private enterprise. Given the particular challenges that face local authorities in developing LED strategies, an additional ability to “connect into” wider networks that are based on logical spatial boundaries would also be tremendously useful.

There are two main parts to this process;

1. Getting local authorities to understand the importance of building inclusive LED networks. As LED officials begin to increase their understanding of the “correct” role for government in LED; as they increase their knowledge of the spatial economy and the role of value chain analysis in identifying real LED opportunities, so they will almost inevitably realise the importance of such networks.
2. Providing LED officials with the tools that they need to build these networks. In many areas where the relationship between government and private enterprise is less than supportive, SALGA has an important potential role to play in facilitating and mediating better relationships.

In the next section we have taken these seven areas where we have identified there is a role for SALGA, and integrated them into the existing SALGA business plan, under the relevant strategic objectives.

5. ACTION PLAN AND BUSINESS PLAN

The areas that we have identified for SALGA to play a role in improving LED processes and practises fall under the following two objectives for the Local Government Strategic Agenda:

Objective 1

To contribute to municipal transformation and organisational development

Objective 3

To contribute to the stimulation of local economies and poverty alleviation

In the table below we have allocated each identified SALGA activity to one of these objectives, described the key performance indicator for each one, and the target for the 2009/2010 year.

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