

CHAPTER 3 LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA

3.1 INTRODUCTION

Economic development has been defined as the capacity of a national economy, whose initial condition has been more or less static for a long time, to generate and sustain an annual increase in its gross national product (Todaro, 1994:14). From a policy perspective, economic development can be defined as efforts that seek to improve the economic wellbeing and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base (Sullivan & Sheffrin, 2003:471).

Economic development is therefore a process by which a nation improves the economic, political, and social wellbeing of its people. The success of a community largely depends upon its ability to adapt to the dynamic local, national and international market economy. Each community has a unique set of local conditions that either enhance or reduce the potential for local economic development, and it is these conditions that determine the relative advantage of an area in its ability to attract, generate and retain investment (Swinburn *et al.*, 2006:1).

South Africa as a young democracy has a conservative economic history which led to its economy being strongly rooted in commodities (e.g. minerals and agricultural produce). During the apartheid era, the majority of South Africa's citizens were deprived of land, skills and opportunities to establish businesses, consequences of which are deep rooted challenges in re-building the economic competence of the country. In an attempt to address the inequalities of the past, the South African government has undertaken a number of economic policies. At the heart of the economic transformation has been the adoption of a local economic development framework, which underpins planning and employment creation at the local level or municipalities (DPLG, 2003:6).

According to Mufamadi (2000:1), LED is an outcome based local initiative which is driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills to stimulate economic growth and development. The aim of LED is to

create employment opportunities for local residents, alleviate poverty, and redistribute resources and opportunities to the benefit of all local residents.

The historical background of local economic development, the importance of local economic development, role players, strategies and their implementation in South Africa is discussed in this chapter. In addition, the problems encountered with LED and the financing mechanisms available in South Africa are also discussed.

3.2 DEFINITIONS OF LED

Just as was the case with economic development, LED means different things to different people. Local economic development can be defined as a process by which public, business and non-governmental sectors work collectively to create better conditions for economic growth and employment generation. The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. The ability of communities to improve the quality of life, create new economic opportunities and fight poverty depends upon them being able to understand the processes of LED, and act strategically in the changing and increasingly competitive market economy (Swinburn *et al.*, 2006:1).

Nel and Humphrys (1999:27) define LED as the process or strategy in which locally based individuals or organisations use resources to modify or expand local economic activity to the benefit of the majority in the local community. Local initiatives may be either self-generated by community members or stimulated by external agencies such as a higher level government. According to Trousdale (2003:1), LED is a participatory process where local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy. LED is seen as a tool to help create sustainable jobs and improve the quality of life for everyone, including the poor and marginalised. The process seeks to empower local participants in order to effectively utilize business enterprise, labour, capital and other local resources to achieve local priorities.

Zaaijer and Sara (1993:129) define local economic development as a process to be driven by local residents. It involves identification of resources endowed locally, including ideas and skills necessary towards the anticipated economic growth and development. This initiation advocates recognition of the importance of involving people for the benefit of the same people. It exposes the full effective and efficient utilization of resources that comprises resources of natural resources and human labour.

LED is an outcome, based on local initiative and driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills, to stimulate economic growth and development. The aim of LED is to create employment opportunities to the benefit of all residents. LED is an ongoing process and encompasses all stakeholders in a local community involved in a number of different initiatives, aimed at addressing a variety of socio-economic needs in that community. LED's aim is to address a socially and economically unacceptable situation (DPLG, 2003).

3.3 THE HISTORICAL CONTEXT OF LED

The concept of LED arose in the context of globalisation. As trade expanded across the world, many producers of goods and services faced competition from producers and countries that were able to provide goods and services at lower prices and sometimes better quality. Globalisation brings both opportunities and threats. The opportunities lie in expanding trade beyond the boundaries of local and regional and national boundaries through competitive production techniques, value addition to local produce and innovation in local economies. The threats lie in each player's ability to adapt to global economic forces and in having to produce goods and services at costs which can compete on international markets. This means that the technology used and standards of production need to meet international requirements (World Bank, 2003).

LED has evolved as a policy approach in the early 1970s by municipal governments realising that businesses and capital were moving between locations for competitive advantage. By actively reviewing their economic base, communities gained an

understanding of the opportunities for, and obstacles to, growth and investment. With this newfound understanding, communities attempted to expand their economic and employment base by devising and undertaking strategic programs and projects to remove obstacles and facilitate investment (Swinburn *et al.*, 2006:1-2).

The understanding of LED internationally has been recognised as a response to key contemporary trends such as increasing decentralisation of power and decision-making to the local level. Globalisation forces linked to changing local conditions have also elevated LED as an important concept. These trends are not unique to any part of the globe. Though occurring at different rates, the effects of globalisation and global economic crises have helped to ensure that local economic initiatives and self-reliance are a discernible trend around the world (Zaaijer & Sara, 1993:3).

The World Bank (2001a) summarises the post 1960 understanding of LED through three waves of development. In each of these waves LED practitioners have developed a better understanding of successful and unsuccessful programs. Although LED has moved through each of these waves, elements of each wave are still practiced today. The first wave was from the 1960s to the early 1980s. During this period, the LED focus was on the attraction of manufacturing investment, hard infrastructure investment and attracting outside investment. The second wave focussed on retaining and growing of existing local businesses. The emphasis was still on inward investment attraction, but usually this was becoming more targeted to specific sectors. The late 1990s and onward can be classified as the third wave. During this wave of LED, greater focus was placed on soft infrastructure investments, public-private partnerships, networking and making the entire business environment more conducive to business (World Bank, 2001a). Table 3.1 summarizes the three waves of LED.

TABLE 3.1: THREE WAVES OF LOCAL ECONOMIC DEVELOPMENT

Wave	Focus	Tools
<p>First:</p> <p>1960s to early 1980s</p>	<p>During the first wave the focus was on the attraction of:</p> <ul style="list-style-type: none"> • mobile manufacturing investment, attracting outside investment, especially the attraction of foreign direct investment • hard infrastructure investments 	<p>To achieve this cities used:</p> <ul style="list-style-type: none"> • massive grants • subsidized loans usually aimed at inward investing manufacturers • tax breaks • subsidized hard infrastructure investment • expensive "low road" industrial recruitment techniques
<p>Second:</p> <p>1980s to mid 1990s</p>	<p>During the second wave the focus moved towards:</p> <ul style="list-style-type: none"> • the retention and growing of existing local businesses • still with an emphasis on inward investment attraction, but usually this was becoming more targeted to specific sectors or from certain geographic areas 	<p>To achieve this cities provided:</p> <ul style="list-style-type: none"> • direct payments to individual businesses • business incubators/workspace • advice and training for small- and medium-sized firms • technical support • business start-up support • some hard and soft infrastructure investment
<p>Third :</p> <p>Late 1990s onwards</p>	<p>The focus then shifted from individual direct firm financial transfers to making the entire business environment more conducive to business.</p> <p>During this third (and current) wave of LED, more focus is placed on:</p> <ul style="list-style-type: none"> • soft infrastructure investments • public/private partnerships • networking and the leveraging of private sector investments for the public good • highly targeted inward investment attraction to add to the competitive advantages of local areas 	<p>To achieve this cities are:</p> <ul style="list-style-type: none"> • developing a holistic strategy aimed at growing local firms • providing a competitive local investment climate • supporting and encouraging networking and collaboration • encouraging the development of business clusters • encouraging workforce development and education • closely targeting inward investment to support cluster growth • supporting quality of life improvements

Source: World Bank, 2008

3.4 LED IN SOUTH AFRICA

The evolution of LED policy in post-1994 South Africa is closely associated with the transition to developmental local government. As early as 1995, Constitutional debates on the future form and shape of local government articulated a far more proactive role for municipalities. The declaration of local government as a sphere (rather than a tier) of government reflects the importance that was attached to local state actors during that early period. The final version of the Constitution itself declared that a fundamental objective of local government was to promote social and economic development in localities. The White Paper on Local Government (1998) introduced the concept of developmental local government. This concept is defined as a 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 (RSA, 1996a). The policy document makes it quite clear that local government is not responsible for creating jobs. Instead, it will be responsible for ensuring that overall economic and social conditions of the locality are conducive to the creation of employment opportunities. Therefore, local government is charged with creating an enabling environment (Nel, 2001).

LED is a strategy to fight the plight of the poor and unemployment directly, but also has other indirect benefits for human development at a local level. An LED strategy need to include at least the creation of jobs by attracting new business, achieve local economic stability and result in a diverse economy. LED strategies should focus on stimulating businesses that use local resources for exporting of final products elsewhere (van Wyk, 2004:121).

The South African Department of Local Government (DPLG, 2003:6) asserts that in adopting LED as a strategy, the South African government is encouraging people at all levels of society to participate in economic decision making which explores creativity and builds entrepreneurship at all levels of society. Given the challenges that the country faces in job creation and poverty eradication, LED builds a platform for bringing all hands on deck in working towards sustainable long term solutions.

The Department of Housing (1997:35) recognises the importance of the involvement of local communities and developing plans for local economic development. The rationale is that initiatives to develop urban management capacity must be supported by provincial and national government, but the management of the urban areas themselves can best be carried out at a local level where decision-makers are in touch with local needs and conditions. The framework for LED defines functions of three key tiers of the government:

- **National government**. A national framework of laws, policy (including standards) and funding mechanisms to support urban development throughout South Africa;
- **Provincial government**. Within the national context, to establish a provincial framework of laws, policy and funding mechanisms sensitive to the specific realities and needs of the cities and towns within the province and capacity building and support for municipalities; and
- **Local government**. The primary responsibility of municipalities is to ensure integrated urban planning and management for the efficient functioning of cities and towns (Department of Housing, 1997:35).

The vision that forms the core of the Department of Provincial and Local Government's (DPLG) policy guidelines for implementing local economic development in South Africa is of creating robust and inclusive local economies that exploit local opportunities, address local needs and contribute to national development objectives such as economic growth and poverty eradication (DPLG, 2005:10). From the evolving practice of LED described above, ten principles guide LED thinking in South Africa from a government's perspective (DPLG, 2006:7):-

- Through a developmental approach, government has a decisive and unapologetic role to play in shaping the economic destiny of our country;
- Creating an environment in which the overall economic and social conditions of the locality are conducive to the creation of employment opportunities is the responsibility of local government;

- 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;
- 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;
- Promoting robust and inclusive local economies requires the concerted, coordinated action of all spheres and sectors of government centred on the application and localisation of the principles espoused in the National Spatial Development Perspective (NSDP);
- 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;
- South Africa competes in a global and increasingly integrated world economy whose threats must be minimised and whose opportunities must be exploited;
- Private companies, including social enterprises and cooperatives, form the heart of the economy and have a crucial role to play as partnerships with public and community role players that will ultimately stimulate robust and inclusive local economies;
- People are the single greatest resource and including all citizens in development and increasing their skills leads to increased opportunities for stimulating local economies;
- Local initiative, energy, creativity, assertive leadership and skills will ultimately unlock the latent potential in local economies and will shape local spaces (DPLG, 2006:7).

The Department of Local Government (DPLG) (2006:7) has set the following objectives, flowing from the above guiding principles:

- 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 a litany of non-viable projects or start-ups;

- To support local economies in realising their optimal potentials and making local communities active participants in the economy of the country;
- To elevate the importance and centrality of effectively functioning local economies in growing the national economy;
- To wage the national fight against poverty more effectively through local level debates, strategies and actions;
- To improve community access to economic initiatives, support programmes and information;
- To improve the coordination of economic development planning and implementation across government, and between government and non-governmental actors; and
- To build greater awareness about the importance and role of localities and regions which play an increasingly significant role as points of investment facilitated by supportive national policies (DPLG, 2006:7).

3.5 THE ROLE OF MUNICIPALITIES IN LED

The Local Government Transition (amendment act) Act of 1996 requires municipalities to promote economic and social development. Metropolitan areas are empowered to promote integrated economic development. The LGTA requires that local authorities determine, formulate and implement an IDP. The IDP (Integrated Development Plan) is a general framework under which all planning for key social, economic and environmental sectors falls (RSA, 1996a).

The Constitution of the Republic of South Africa (Act No 108 of 1996) establishes local government as a separate sphere of government responsible for service delivery, and imposes a specific set of responsibilities on national and provincial spheres of government to support and strengthen the capacity of municipalities. Section 152 and 153 of the Constitution (Act 108 of 1996) defines one of the objectives of local

government as to structure and manage its administration, budgeting and planning processes to give priority to the basic needs of the community to promote social and economic development of the community. Several basic needs rights of the community are stipulated by the Constitution, which have to be addressed or ensured by government (RSA, 1996b).

The statutory principles for developmental local government are contained in the legislation of the Municipal Systems Act of 2000. The Local Government Municipal Systems Act (32/2000) sets out the internal systems of municipalities that enable municipalities to operate in such a way that they move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all. In Section 26 of the Act (32/2000) it is stipulated that each local municipality must formulate an integrated development plan (RSA, 2000). LED is one of the dimensions within the IDP and therefore, local municipalities are legally obliged to plan and pursue LED activities. A key component of the Act is the issue of Integrated Development Planning of which LED is regarded as a core aspect. The Integrated Development Plan (IDP) is conceptualised as a tool to assist municipalities to achieve their development mandates. LED is an essential part of the developmental mission of local government, and it is linked to the overall approach to planning and public investment (DPLG, 2000).

It is clear that municipalities must be the local coordinating agents for the implementation of the local economic development initiatives, in close partnership with the private sector and community interests. To successfully bridge the historical divides, municipalities will have to become more development orientated, and be concerned with the upliftment of the local community. For LED to be successful, the process must include the participation of local political, community and business actors in the economic and social development of their urban area or region. It must also be built on a common vision for the short, medium and long term, and must identify and emphasise local comparative advantages (Department of Housing, 1997:34).

The local municipality can take up different roles in the promotion of LED. These roles (Table 3.2) can be taken in combination, as the ultimate goal is to create an environment conducive for sustainable economic development.

TABLE 3.2: ROLE OF LOCAL AUTHORITIES IN LED	
Role	Description of the role
Coordinator	In this role, the municipality acts as a co-ordinating body. An important tool for co-ordination is the Integrated Development Plan (IDP), which draws together the developmental objectives, priorities, strategies and programmes of a municipality. The IDP can be used to ensure that LED Initiatives are co-ordinating with other municipal programmes, and approximately linked to national and provincial initiatives.
Facilitator	In this role the municipality improves the investment environment in the area. This could be done through streamlining development, or improving planning procedures and zoning regulations.
Stimulator	In this, role municipalities stimulate business creation or expansion. The municipality may provide premises at low rentals to Small, Medium and Micro enterprises (SMME's), or compile brochures on local investment opportunities, or promote a particular sector or activity in a key venue.
Entrepreneur	In this role the municipality takes on the full responsibility of operating a business enterprise. A municipality can also enter into a joint venture partnership with the private sector or a NGO.

Source: DPLG, 2003:3.

At one level the municipality can act as a coordinator of local activity. The important tool for local authorities is the IDP. With a facilitator role that they are given, the local authorities create a conducive environment for local economic development through the IDP. The stimulator role involves business stimulation through the favouring

business development. The entrepreneur role is where the municipality takes the full responsibility of running a business. The municipality can assume different roles at different times and may choose to play a more direct role in some LED initiatives than in others. Almost all efforts aimed at developing the local economy will require some input, participation and support from local government.

The United States of America's Council for Urban Economic Development (CUED) states that local government is a primary, but not an exclusive institution for LED. Within this context, the key roles that the local government can play are summarised as (DPLG, 2006:15):

- 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); and
- 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, 2006:15).

The Department of Housing's (1997:36) summaries the role of municipalities as:

- An instrument for democratic participation and accountable governance for local communities;
- An agency for the promotion of local social and economic development; and
- A key organ for ensuring service delivery.

3.6 LED STRATEGIES

LED offers local government, the private sector, the not for profit sectors and the local community the opportunity to work together to improve the local economy. It aims at

enhancing competitiveness and thus encourages sustainable growth that is inclusive. The purpose of LED is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation (World Bank, 2001a).

In order to promote economic development, it is being increasingly recognised that attention needs to be paid to both microeconomic measures at the local level and macroeconomic measures at the national level. Macroeconomic approaches however are limited in their impact if intrinsic problems such as social and economic inequalities that divide a nation are ignored. These include unpredictable political relations, geographical and environmental conditions, and the potential micro-interventions which can build on local strengths and opportunities. This requires a need to explore ways of promoting economic development both from a strategic approach as well as from a more local level (Sachs, 2005:45).

In South Africa, LED is often taken to refer to social participation in income-generating activities and redistributive wealth mechanisms that retain and expand local economic activities. In countries adversely affected by poverty, prioritising the needs of the poor must feature prominently in the design of LED interventions (Khanya, 2006:1). Local government's developmental mandate from the South African Constitution encourages municipalities to seek to address poverty, unemployment and redistribution in their local areas. They are also required to participate in various economic development programmes of provincial and national governments. Municipalities can promote LED in their areas in a number of different ways. They assume different roles at different times and may play a more direct role in some LED initiatives than in others. Nearly every effort to develop a local economy will require some input, participation and support from local government (RSA, 1996b).

Developing an LED strategy requires that a municipality does an analysis of the existing situation, look at opportunities for growth and decide on the best strategies to achieve their goals. Given the diversity of economic challenges and the range of possible programmes, LED strategies are likely to entail considerable variations. A

guiding principle should be that local economies should prioritise programmes that will create the most impact in view of their goals (Swinburn & Murphy, 2007:4). Some key components that should be incorporated include:

- A balanced set of hard and soft infrastructure programs, i.e. meeting needs for transport, energy, water, waste management and telecommunications networks as well as social needs for educations, training, business support and healthy lifestyles;
- A project implementation table that clearly identifies individual projects with appropriate goals, sources of funding, implementing agency, start date and project duration;
- Clear statements of the nature and requirements of each project, along with expected outputs and outcomes. These can be used as a benchmarking mechanism for monitoring the progress and output of project as it is implemented;
- A table that clearly identifies LED project partners, funding sources, project duration, target groups and commencement and expected completion dates;
- The plans should document the conceptual links from vision to projects. This will keep the logic consistent and will help in reviewing progress in realising the vision;
- Plans should reflect the resources that partners bring to LED projects and further resources required to achieve goals; and
- Projects should identify the risks that could hinder progress and consider methods to contain or manage these (Swinburn & Murphy, 2007:4).
- A summary table highlighting priority initiatives and sectors earmarked for investment with budgets and plans to attract investors;

The following are some key strategies that a municipality can put in place to meet its goals (Table 3.3).

TABLE 3.3: LED STRATEGIES AND INTERVENTIONS

Strategy	Aim	Interventions
Development and maintenance of infrastructure and services	Create an enabling environment Save time, cost and technology	The provision of: Reliable, cost effective municipal service delivery by choosing a service delivery mechanism that targets the under-served. Efficient infrastructure maintenance. Municipal provision of social amenities and facilities (health, recreation and pre-school). Effective housing and settlements policy.
Retention and expansion of existing services	Assist local businesses to improve their productivity and increase market share	Development of local business skills training. Providing advice, capital and technological support. Developing under-exploited sectors that have comparative advantages. Changes in zoning and fast-tracking development applications.
Increase spending on products of the local economy	To stem the outflow of money from poor areas	Encourage communities to buy local. Funding special events and festivals. Providing infrastructure using local labour and locally manufactured materials. Promoting employee training within local businesses and communities.
Human capital development and productivity	Ensuring that economic development brings social benefits.	General and customised training within lead sectors. Basic and advanced skills development. Targeted procurement policies.
Community economic development	Support poverty reduction in low income communities and organisations	Promote safe savings collectives and financial services, community based environmental management and maintenance schemes, and urban farming projects. Support SMME development by providing business infrastructure, service subsidies, and technical support.
Linkage of profitable growth to redistributive development/ financing	To ensure that businesses investment benefits in disadvantaged communities and areas	Example: Banks or other financial institutions opening a branch in a wealthier area should do so in a low-income neighbourhood or to invest some of their turnover in local small businesses (Corporate Social Responsibility of private).

Source: DPLG, 2001.

3.7 LED PLANNING PROCESS

When a municipality starts on the process of planning for LED, it needs to have clear focus on bringing together the range of stakeholders and at the same time ensuring a strategic focus on achieving balanced development and growth across the local economy. This can be quite complex in practice and it is worthwhile to consider some different tools and approaches which can be used (DPLG, 2001:58).

Local economic development planning involves the analysing local conditions, identifying problems and opportunities, setting goals, designing strategies to achieve these goals, coordinating activities to implement the strategies, and evaluating accomplishments. LED planning is a structured process that engages local people in debate about their local area. It encourages them to identify local needs, to develop local solutions and have real influence with local decision-making about the needs, priorities and their future. The process takes place over time, involving all sections of the community, and covers all matters that affect quality of life in a local area, particularly those that need most support (Curran *et al.*, 1998:1).

The planning process to LED can be seen to include; organizing the effort, assessing the local economy, compiling the actual strategy, implementation, and the review process. The process results in an action plan which identifies:

- Actions the community can take forward;
- Actions that need external support to achieve; and
- Actions that require external influence over long term statutory plans (Curran *et al.*, 1998:1).

3.7.1 Organizing the Effort

To successfully organize a local economic development strategy, institutional arrangements and stakeholder involvement should be agreed on at an early stage of the planning process. An LED team should be assembled and this team should initially manage the strategic planning process. Successful local economic development requires the collaborative effort of public, private and non-governmental sectors. The

strategic planning process begins by identifying the people, public institutions, businesses, industries, civic organizations, professional organizations, think-tanks, training institutions and other groups that comprise and/or impact the local economy (Swinburn *et al.*, 2006:4).

The skills, experiences and resources that stakeholder groups bring to the effort will each contribute to the overall strategic planning process. Establishing solid working relationships and organizational structures to support the strategy planning process will lead to beneficial long term, public, private and non-governmental partnerships. These working relationships can range from relatively informal working groups, to semi-formal, loosely aligned networks, to the establishment of a regional development agency or a constituted public-private partnership. Maintaining and sustaining such partnerships is often the critical and challenging factor determining the effectiveness of LED efforts (Swinburn *et al.*, 2006:4).

The devolution of significant and real power to effect LED is impeded when local municipalities lack the skills and capacity to effect change. This applies to councillors and officials and is a major constraint which government itself should recognise (Khanya, 2006:4).

3.7.2 Local Economy Assessment

According to (Swinburn *et al.*, 2006:5), knowing the characteristic of the local economy is critical if stakeholders are to identify and agree on a realistic, practical and achievable LED strategy. To elicit key data on the local economy, an effective local economy assessment will start with a preliminary review of the existing economic relationships and activities within an area, and will make use of available quantitative and qualitative information that highlights existing structures and trends in business development, manufacturing, employment, skills, and other data that will help to identify the strategic direction of the local economy.

The first step in a local economy assessment is to determine what information is pertinent, required and available, and to identify the vague, missing or non-existent data that will be necessary to enable an effective local economy assessment. After

obtaining this data, it will be necessary to collate and analyse the data so as to provide a profile of the local economy. Several tools including SWOT analysis, benchmarking and regional economic indicators may be used to identify key information on the local economy. Effective LED strategy planning will include a review and analysis of the contribution of local economic development programs and projects that are already happening in the area (Swinburn *et al.*, 2006:5).

For community-based economic development to work, participatory identification of strengths and opportunities at a local level is required as well as fostering of community energy and commitment to take forward their own development (Khanya, 2006:4).

3.7.3 Strategy Making

As in comprehensive strategic planning, the intent is to achieve an integrated approach to local economic development strategic planning. In devising strategy, practitioners in municipal government and principal stakeholder groups will need to balance local economic development with environmental and social needs. A typical LED strategy has a number of components. The following elements of the LED strategy need to be developed (Swinburn *et al.*, 2006:6):-

- **Vision**. Describes the stakeholders' consensus on the preferred economic future of the community.
- **Goals**. Based on the overall vision and specify desired outcomes of the economic planning process.
- **Objectives**. Establish the performance standards and target activities for development of each goal. They are time bound and measurable.
- **Programs**. Set out approaches to achieving realistic economic development goals. They are time bound and measurable.
- **Projects and Action Plans**. Implement specific program components. They must be prioritized, and costs must be established. They are time bound and measurable (Swinburn *et al.*, 2006:6).

3.7.4 Strategy Implementation

An LED strategy is an overall plan that has short, medium or long-term aims and actions and sets out what is going to be achieved. It will establish an agenda to promote and develop a local community's economic, physical, social and environmental strengths and will address both challenges and opportunities (Swinburn *et al.*, 2006:6).

Every LED strategy should have an implementation plan that in turn is supported by individual project action plans. The implementation plan sets out the budgetary and human resource requirements, and institutional and procedural implications of implementing the LED strategy. As a single document that contains all of the LED programs and projects within a strategy, it serves as an integrated planning document to maintain clarity of strategy direction, and ensures that programs and projects do not inappropriately compete for resources and support (Swinburn *et al.*, 2006:6).

3.7.5 Strategy Review

Although an LED strategy is usually written for a three to eight-year period, the strategy should be reviewed annually to allow for adjustment in response to changing local conditions. A more comprehensive revision usually takes place every three years. The implementation of the LED strategy should, however, be subject to a rigorous annual assessment. This review should consider the resources available for the delivery of the strategy and include established and agreed monitoring and evaluation indicators of the local economy (Swinburn *et al.*, 2006:7).

The review should include, where possible, inputs, outputs, outcomes and impacts, and also the implementation process and the level and extent of stakeholder participation. Alongside the strategy review, systems should be in place to monitor the progress of each project. These systems will allow decision makers to adjust the strategy in response to changing local conditions. As programs or projects are completed or deemed to be inappropriate, new ones can be identified (Swinburn *et al.*, 2006:7).

3.8 LED AND IDP

Section 26 of the Local Government Municipal Systems Act (32/2000) stipulates that each local municipality must formulate an integrated development plan (IDP). LED is one of the dimensions within the IDP and, therefore, local municipalities are legally obliged to plan and pursue LED activities. A key component of the Act is the issue of Integrated Development Planning of which LED is regarded as a core aspect. The Integrated Development Plan (IDP) is conceptualised as a tool to assist municipalities to achieve their development mandates. LED is an essential part of the developmental mission of local government, and it is linked to the overall approach to planning and public investment (DPLG, 2000).

Municipalities have to prepare 5-year strategic plans (IDP's) linked to the term of office of an elected council and have to be formulated in consultation with communities and key stakeholders. The IDP is a process through which a municipality can establish a development plan for the short, medium and long term. It includes the following components: long-term vision; assessment of the existing level of development; development priorities; development objectives; development and operational strategies; and a spatial framework (DPLG, 2000:12).

In terms of section 23(1) of the Local Government: Municipal System Act 2000 (32 /2000), a municipality must undertake developmentally oriented planning so as to ensure that it: strives to achieve the objects of local government set out in section 152 of the Constitution; gives effect to its developmental duties as set out in section 153 of the constitution; and contribute to the progressive realisation of the fundamental rights contained in sections 24, 25, 26, 27 and 29 of the Constitution (RSA, 2000).

These sections of the Constitution deal with the socio-economic rights of all South African. Section 25(1) of the Municipal Systems Act provides that each municipal council must adopt a single, inclusive and strategic plan for the development of the municipality which links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality; aligns the resources and capacity of the municipality with the implementation of the plan; and forms the policy framework and general basis on which annual budgets must be based (RSA, 2000).

The IDP essentially recognises the complex relationships between various aspects of development: political, social, economic, environmental, ethical, infrastructural and spatial. Given the inter-relationships, it is impossible to address only one dimension and expect to make a developmental impact. The IDP recognises that any sustainable and successful strategy must address all of the elements in a coordinated way, based on an analysis of the underlying structural factors that sustain economic growth, poverty and inequality (DPLG, 2003:15).

Integrated Development Planning is regarded as a conceptual framework that seeks to provide the basis for the new physical and socio-economic landscape to reflect changing political circumstances in South Africa. At a practical level, it provides the catalogue for direct intervention to mitigate some of the problems associated with previous planning (Khuzwayo, 1999:4).

This involves the extension of housing services and basic infrastructure to areas of past neglect. The goal of IDP is therefore to overcome the physical and spatial patterns of past inequalities. Apart from being a legal requirement, it is seen as a useful management tool for the transformation process within the municipality (Khuzwayo, 1999:4).

During the IDP planning process, municipalities will identify a number of socio-economic needs in the community. LED is one of key outcomes that an IDP should work towards. This means that LED will also be one of the critical strategies in an IDP. The IDP provides a mechanism for co-ordinating LED strategies with other developmental strategies adopted by the municipality (DPLG, 2005). The core principle of the IDP is the involvement of the communities in all the developmental processes of the municipality. It ensures that services are rendered in an organised, co-ordinated way and hence forms the base of all the budgets (Louw, 2001:2).

3.9 FUNDING LED IN SOUTH AFRICA

There are different sources for funding for LED purpose. LED can be funded from revenue generated locally, through the levying of rates and taxes or externally through governmental and non-governmental agencies with a mandate of assisting in the

development of local municipalities. In South Africa, the following sources of funding are available for municipalities to make use of:

- **Local government own revenue**. Municipalities should generate more own revenue through increased economic activity in the form of property taxes and sale of municipal services.
- **Equitable Share (ES)**. Its aim is to empower municipalities to provide basic services to poor people. The programme is available to all metropolitan councils and local municipalities. High growth municipalities support low growth municipalities through national transfers by the government - redistributive measure.
- **Municipal Infrastructure Grant (MIG)**. The current level of transfers supports mainly basic infrastructure development. This in itself needs to be spent and utilised better by municipalities. The funds are available from the government and grant allocation is dependent on the proposed project.
- **Neighbourhood development partnership grants (NDPG) and urban development incentives (National Treasury)**. Municipalities need to organise themselves and apply for the NDPG available from the National Treasury. These are for inner city strategies aimed to maximise usage of property development incentives from urban development zone programmes.
- **Sector support (National departments and state owned enterprises)**. There is a range of funding sources available for sector specific initiatives from national departments. Many sector programs are also delivered directly in municipal areas. This together with funds that can be channelled through municipalities, and need to be organised better so that the integrated impact and outcomes optimises economic development in the local space.
- **Development finance institutions (e.g. IDC, DBSA), private banks, and venture capital companies**. The challenge is to link local enterprises to these support instruments more effectively through better communication and information. Growing and expanding the number and size of local businesses is the key for local economic development. These institutions aim at financing

sustainable development in partnership with the public and private sectors. The focus is on investment in infrastructure and to act as a catalyst for overall investment.

- **Donor funding**. A source of valuable support can be found through corporate donors, private foundations and foreign development agencies for funding economic development. Local authorities can assist these organisations by directing them towards sources of potential support (DPLG, 2007:36; CASE, 2001:80-85).

3.10 PROBLEMS WITH LED IN SOUTH AFRICA

The South African Cities Network (SACN) (2004:167) identified key challenges impacting on the ability of local governments to implement LED in South Africa;

- Most cities do not have adequate economic growth strategies in place and therefore are unable to tackle poverty.
- Cities cannot develop local economic strategies in isolation from national economic policy; manufacturing is in long-term decline; unemployment and low skills levels are major barriers; cities make a key contribution to social and economic life in the country but they are also the greatest concentrations of poverty.

In addition to the above, a few of some of the concerns raised concerning current LED policy and practice in urban areas of South Africa are highlighted below:

- LED is not yet well embedded in municipal practice, as shown by the limited funds allocated, the absence of poverty reduction targets and the lack of detail of the impact of interventions. It is still early days for many municipalities, whose policy is still being developed and concrete results appear to be limited. In addition, the lack of monitoring and evaluation is a cause for concern (Khanya, 2006:4).
- LED is unevenly developed and operationalised across the South African urban system. Major divides exist between the largest, well-resourced and

capacitated municipalities and the smaller urban centres in terms of policy development, institutionalisation of LED and applied practice (Khanya, 2006:4). Nel (2002) asserts that what is being achieved is the provision of facilities of a global standard in certain localities versus constrained achievements in the poorer areas. This is exacerbated by limited private sector involvement in smaller areas of the country, thus limiting the impact of projects earmarked for poverty alleviation.

- LED is defined and understood very differently. This results in challenges in determining objectives and targets as well as differences between councils, which hinders the scope for comparison. The politicisation of development is an issue, where individual interests override the greater common good (Tomlinson, 2003).
- LED is sometimes perceived as marginal to the mainstream basic services delivery mandate of local government. This raises the question of whether local authorities should be driving economic development and job creation, or whether local governments should rather be facilitating it (Khanya, 2006:4).
- There is considerable variation in the amount of resources and staff devoted to LED, the degree to which LED has moved beyond policy pronouncements and the results achieved (Khanya, 2006:4).

There are pro-poor statements in the policies of many municipalities, but this is often not translated into significant LED budgets or the action plans of other municipal departments. This impedes the overall scale and impact of municipal council's LED policies. In addition, there is an apparent failure to explicitly link line function interventions or national government-funded projects to LED e.g. housing construction and infrastructure. There is only limited private sector involvement and the reasons for establishing partnerships need to be more clearly articulated and the concept needs more explicit mention in IDPs (SACN, 2004:167).

Rogerson (1999) in his assessment concluded that LED is generally accepted as having the potential to create job opportunities in poor communities, however, there are relatively few instances where it has led to poverty alleviation. Nel (2001) argues

that although LED will not necessarily propel poor communities into the mainstream economy, LED initiatives developed as an endogenous response to market failures has the potential to ensure the economic survival of poor communities. The argument is that in areas with limited economic prospects, it can provide much needed employment opportunities, which can become sustainable if supported adequately.

3.11 SUMMARY AND CONCLUSION

LED has evolved as a policy approach in the early 1970s in response by municipal governments realising that businesses and capital were moving between locations for competitive advantage. By actively reviewing their economic base, communities gained an understanding of the opportunities for, and obstacles to growth and investment. With this newfound understanding, communities attempted to expand their economic and employment base by devising and undertaking strategic programs and projects to remove obstacles and facilitate investment.

LED is an outcome-based local initiative which is driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills, to stimulate economic growth and development. The aim of LED is to create employment opportunities to the benefit of all residents. LED is an ongoing process and encompasses all stakeholders in a local community involved in a number of different initiatives, aimed at addressing a variety of socio-economic needs in that community.

The evolution of LED policy in post-1994 South Africa is closely associated with the transition to developmental local government. In South Africa, LED is addressed through the local government or municipality. Municipalities must be the local coordinating agents for the implementation of the local economic development initiatives, in close partnership with the private sector and community interests. The policy documents relating to LED in South Africa make it clear that local government is not responsible for creating jobs. Instead, it will be responsible for ensuring that overall economic and social conditions of the locality are conducive to the creation of employment opportunities.

Local economic development in South Africa is concerned with creating robust and inclusive local economies that exploit local opportunities, address local needs and contribute to national development objectives such as economic growth and poverty eradication. The challenge with LED in South Africa is that most cities do not have adequate economic growth strategies in place and therefore are unable to tackle poverty. Cities cannot develop local economic strategies in isolation from national economic policy. Manufacturing is also on a long-term decline, unemployment and low skills levels are on the rise as major barriers hereof. Cities make a key contribution to social and economic life in the country but they are also the greatest concentrations of poverty.

For LED to be successful there should be a coherent planning process involving all stakeholders within the local area. The process takes place over time, involving all sections of the community and covers all matters that affect quality of life in a local area, particularly those that need most support. The planning process can be seen to include: organizing the effort, assessing the local economy, compiling the actual strategy, implementation, and the review process.

There are different sources of funding for LED purposes. LED can be funded from revenue generated locally through the levying of rates and taxes or externally through governmental and non-governmental agencies which assist municipalities with the development of local economies.