

LOCAL GOVERNMENT MANAGEMENT IMPLICATIONS DUE TO THE SHIFT IN THE LOCAL ECONOMIC DEVELOPMENT POLICY

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The Author

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LIST OF ABBREVIATIONS

BBBEE	Broad Based Black Economic Empowerment
CMIP	Consolidated Municipal Infrastructure Programme
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
DOL	Department of Labour
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
EPZ	Export Processing Zone
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Programme
GGP	Gross Geographic Product
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IDZ	Industrial Development Zone
LBSC	Local Business Support Centre
LED	Local Economic Development
LEDF	Local Economic Development Fund
LETS	Local exchange and trading systems
LG&WSETA	Local Government and Water Sector Education Authority
MDC	Maputo Development Corridor
MIG	Municipal Infrastructure Grant
MTEF	Medium Term Expenditure Framework
NAMAC	National Manufacturing Advise Centre
NGO	Non-government organisation
PGDS	Provincial Growth and Development Strategy
RDP	Redistribution and Development Programme
RIDP	Regional Industrial Development Programme
SADC	Southern Africa Development Cooperation
SDI	Spatial Development Initiatives
SETA	Sector Education and Training Authority
SEZ	Special Economic Zone
SIC	Standard Industrial Classification
SMIF	Special Municipal Innovation Fund
SMME	Small, Medium and Micro Enterprises
TAC	Tender Advice Centre
UN	United Nations

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CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION

Officially, unemployment stands at nearly 40% (Nel, 2001(a): 1004) although figures of up to 80% have been recorded in certain rural districts such as the Mquma Local Municipality in the Eastern Cape. A variety of employment-generating strategies are being investigated, experimented with and implemented by government and private organisations such as labour intensive infrastructure delivery in the form of public works programmes and infrastructure delivery. With reference to economic development, the local economic development (LED) approach is being advocated in South Africa by the Department of Provincial and Local Government (DPLG).

LED is currently a widely discussed issue in South Africa. Local municipalities are legally obliged by the Municipal Systems Act (32/2000) to pursue LED activities. According to Nel & Binns (2001: 355) LED is an essential part of the developmental process of the developmental mission of local government and is linked to the overall approach to planning and public investment as defined in the Integrated Development Plan (IDP). According to Meyer-Stamer (2002: 3), the municipal administrations tend to be deeply uncertain as to what LED means, what they are supposed to do and how they are supposed to organize LED. The main doubts are the following:

- Is the municipality supposed to be the driver of the LED process, a facilitator, or rather an active observer of a process, which is driven by the local business sector?
- Who exactly in the municipal administration is supposed to be in charge of LED?

Reviews of the status of LED within local government areas in the southern hemisphere indicate that formal LED, as opposed to community-based variations, is still in its initial stages and few local governments or other agencies can be said to be actively engaged in LED at present (Nel and Rogerson, 1995: 7).

1.2. PROBLEM STATEMENT

Local government is a “cradle-to-grave” agency, supplying a broad range of services to local communities and disbursing formidable sums of money in the process (Nel, 2001(b): 605). Most local authorities are also hard-pressed, in financial terms (Bovaird, 1996: 345). Given these financial pressures, there is little money or time available within which to conduct specific LED activities. Nel (2001(a): 1020) states that LED is a new development strategy which is currently being experimented with in South Africa but that in most parts of the country local governments are dealing with an “unfunded mandate” for which they lack the power, resources and capacity to implement.

Meyer-Stamer (2002:5) states that, in the perspective of the DPLG, LED is about bringing together employment policy, economic policy, urban development policy, rural development policy, social policy, family policy and health policy. A number of factors seem to be impacting on the current low implementation of LED projects namely:

- Confusion between LED and community development
- Limited intellectual and technical know-how in terms of LED implementation
- Political interference in the LED process through for example project picking by politicians
- An unclear national policy framework

According to a communication with Mr. M. Mzezana of the Department of Provincial and Local Government (DPLG) (2004), a difference exists between the core activities of the two key national departments involved in economic development namely, the Department of Trade and Industry (DTI) and DPLG. The primary difference between the two departments' approach relates to the fact that the DPLG approach (policy) is a factor contributing to the confusion (at a local level) regarding the difference between LED and community development. Conversely, the DTI approach is focused more on the investigation of economic parameters and includes appropriate market research, feasibility studies and the formulation of detailed business plans.

However, the DPLG is currently in a process of reviewing the 2002 Policy and formulating an official LED policy – the 2004 Policy. Such revision is expected to have a

significant impact on the approach followed by local governments in South Africa with regards to the planning and implementation of LED projects. It is not clear how this revision will change the LED landscape. Against this background, the following problems are highlighted:

- The current LED framework does not provide appropriate guidelines in terms of the formulation and implementation of LED activities (Meyer-Stamer, 2002: 3-8).
- Local government is faced with internal as well as external pressures to deliver LED in their local constituencies (Nel, 2001(a): 1005).
- The Integrated Development Plan (IDP) requires a dedicated economic dimension (associated with LED). The current capacity of local government to formulate appropriate LED strategies and projects in this context is generally lacking (DPLG, 2001: 17)
- Institutional uncertainties within the local government delivery system are constraining the deployment of LED activities (Sapula *et al*, 2003:8)

Therefore, a shift in the national LED Policy will have an impact on the ability of local government to deliver and manage LED activities. In other words, the 2002 LED Policy, is **part** of the existing guidelines for LED delivery, is being replaced by the new 2004 LED policy. This re-alignment will have definitive management implications for local government with regards to how they plan, manage and monitor their LED activities.

1.3 AIM & OBJECTIVES

The aim of this research is:

To identify the policy shifts with the intention to detect the management implications for local government.

From the preceding, the following objectives have been formulated for the study:

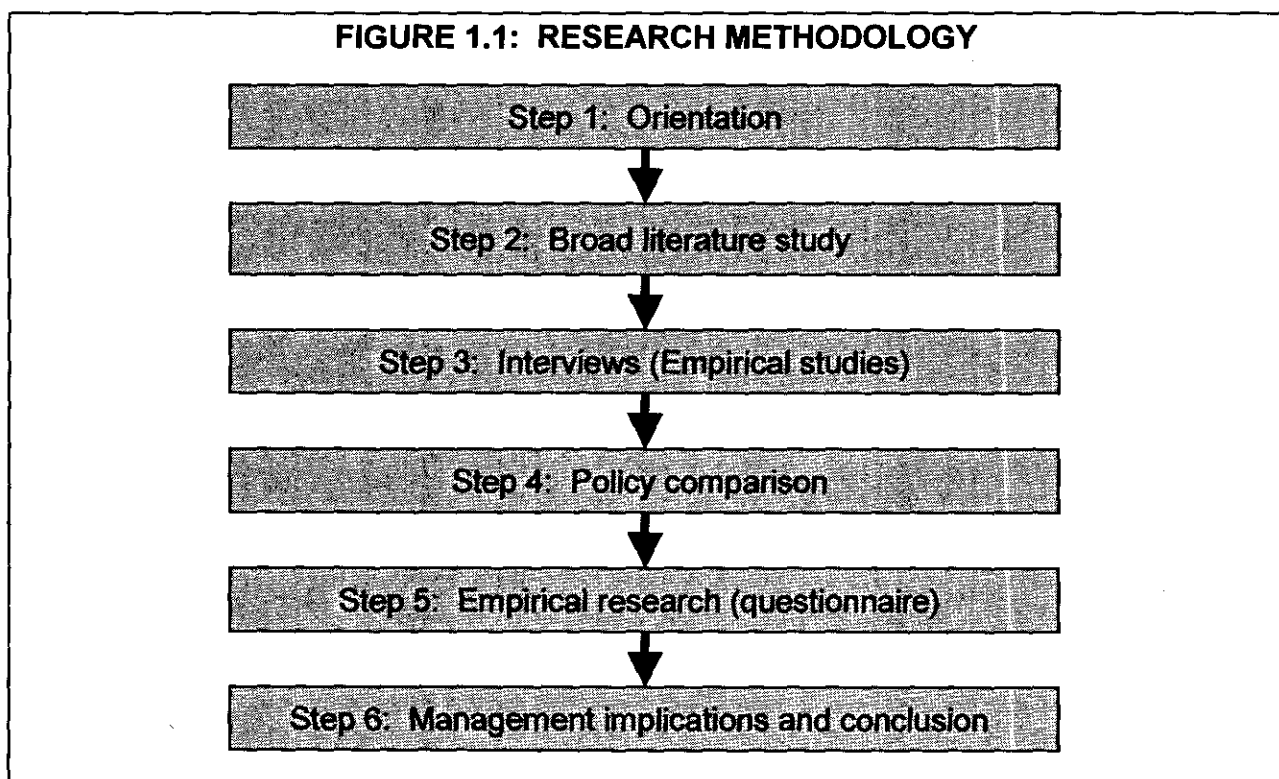
- To provide a synoptic overview of the national economy in order to determine the relevance of local government involvement in the LED field with reference to existing economic performance

- To review the current LED frameworks employed to guide LED in the local government context
- To review and compare the 2002 and 2004 LED Policies and to identify the key shifts in the policy re-alignment
- To identify and evaluate the management implications for local government from the key policy shifts
- To investigate the status quo of LED management (through the use of a case study)
- To provide management guidelines based on the identified management implications and the status quo of LED management.

In order to achieve the aim and the individual objectives, the following research methodology will be followed.

1.4 RESEARCH METHODOLOGY

A study of this nature can only be executed successfully if it is properly planned to define the various steps to be undertaken. The envisaged methodology consists of a number of inter-related yet, independent steps. Figure 1.1 provides a diagrammatical illustration of the steps.



The individual steps are discussed in the following paragraphs.

1.4.1 STEP 1: ORIENTATION

The initial step of the research process aims to identify and review all the relevant legislative requirements and mandates of local government with the emphasis on LED. Such a review will ensure that an acute understanding of the legal and other frameworks is employed as a point of departure. This will warrant that the remainder of the research is conducted within the legal pretext that regulates the functioning of local government activities. Additionally, the national economy will be briefly investigated to identify the spatial distribution of economic activities on a broad level, in the context of national governments' economic development initiatives.

1.4.2 STEP 2: BROAD LITERATURE STUDY

This step consists of two key components, an in-depth review of the 2002 policy to identify key challenges in the 2002 policy and 2) a qualitative review of the new policy. The outcomes will be utilized as a point of departure for Step 3.

1.4.3 STEP 3: INTERVIEWS (EMPIRICAL RESEARCH)

During this step, at least 10 interviews will be conducted with at non-government actors active in the LED field. The interviews will have a dual focus. Firstly, the management implications of the 2004 LED policy will be identified and secondly, the management implications will be ranked according to the perceived importance by the interviewees. In order to ensure that the interview-efforts are optimized, a summary of the new policy as well as the interview outline will be forwarded to the interviewees at least one week before the interviews are conducted.

1.4.4 STEP 4: POLICY COMPARISON

The fourth step in the methodology will be conducted in parallel with step 2. During this step, the 2002 and 2004 policy will be compared with each other in order to identify the main shifts, which have occurred on a policy level. The comparison will focus on the core components of the two policies with emphasis being placed on the institutional frameworks being outlined by the two policies. Limited attention will be directed at the provincial and national levels of government with the focal point being the local government sphere.

1.4.5 STEP 5: EMPIRICAL RESEARCH

During this step, the management implications as identified in step 3, will be utilised as a primary input into the empirical research. The research will be undertaken through the use of a structured questionnaire (see Annexure A) that will be distributed to the LED departments of the municipalities situated in the Sedibeng district. The aim of this step is to utilize the identified management implications and apply it to the Sedibeng District. The research will assess the management implications of the policy shift on this administrative region.

The envisaged approach will consist of structured interviews with the representatives of the four authorities constituting the Sedibeng District. A questionnaire will be employed to guide the interviews and to ensure that statistical analysis-techniques can be applied to quantify the outcomes of the localised investigation. This step explores the current situation at a local government level in terms of the ability to perform LED activities at the hand of the challenges identified in the preceding step.

1.4.6 STEP 6: MANAGEMENT IMPLICATIONS & CONCLUSION

This step of the methodology will consolidate the empirical research in a manner through which the management implications are delineated and discussed. From the outcomes of the empirical research, management guidelines and recommendations will be formulated which relate specifically to the Sedibeng area. This implies that a LED management framework will be formulated according to which LED activities can be managed.

1.5 FOCUS, EXCLUSIONS AND LIMITATIONS

The focus of this paper is on the management implications of the shift in the LED policy for local government. Therefore, it is important to realize that the focus of this paper is **not** on:

- Evaluating the appropriateness of the 2004 LED policy in the South African context
- Investigating the role and function of the different government role-players

- Investigating the coordination of activities between the different government role-players
- Economic development *per se* and the related instruments and objectives
- A *detailed* investigation into the evolution of LED and the associated instruments and targets
- Global development trends and the overall response to the changing global characteristics
- The development field in general
- The municipal effectiveness, including actions, targets and instruments, in delivering LED services or the appropriateness of their LED activities.

While this study investigated the management implications for local government due to the shift in the LED policy, a number of limitations need to be stated which impacted on the study. These limitations include:

- The unavailability of the municipal budgets and audited financial statements restricted the investigation into the budgetary allocations to the LED departments from the municipal organisations.
- The small LED units (in one case $n = 1$) throughout the area had implications for undertaking a detailed investigation of the individual municipal situations and thus the study presents a generalisation of the situation throughout Sedibeng as a totality.
- The narrow skills and experience base of the LED personnel could imply that the personnel had limited insight into the questions being asked. This could translate into a negative impact on the confidence in the statistical outcomes.
- Only the LED departments were included in the research. The inclusion of the total organisation could have highlighted other organisational priorities, which have not been identified.
- The Sedibeng area was the focus of the study. Other areas with different economic and spatial characteristics could have different dynamics, which implies different management implications and approaches to addressing the implications could be needed.

The following section provides an overview of the study area that will be utilised during the case study.

1.6 STUDY AREA DELINEATION

The Sedibeng District Municipality, together with the three local municipalities falling within its boundaries has been selected for this study. The three local municipalities falling in Sedibeng are presented in table 1.1 and the location of the study area is illustrated in figure 1.2.

TABLE 1.1: LOCAL MUNICIPALITIES		
Municipality	Main Towns	Secondary towns
Emfuleni Local Municipality	Vereeniging & Vanderbijlpark	Sharpville Biophatong Evaton Sebokeng
Midvaal Local Municipality	Meyerton	Henley-on-Klip
Lesedi Local Municipality	Heidelberg	Ratanda

The rationale for selecting the Sedibeng area is based on the fact that:

- An intimate knowledge of the organizational dynamics exists
- A significant volume of literature exists – mainly associated with the development initiatives
- The researcher has been, and is, directly involved with the various local government institutions, more specifically the LED Offices, as a result of LED-planning activities.

These activities include:

- The 1st Sedibeng Economic Regeneration Summit
- The 2nd Sedibeng Economic Regeneration Summit
- The Sedibeng Integrated Economic Development Plan
- The Evaton Urban Renewal Programme

FIGURE 1.2: LOCATION OF SEDIBENG

Source: Sedibeng District Municipality, 2003: 16.

Furthermore, a professional relationship exists between the researcher and the various local government institutions and their representatives. It might be argued that the parts of the Metsimaholo District area, such as Sasolburg, should be included as part of the study area due to the spatial proximity and envisaged economic flows between the areas. However, the emphasis of the research is on the management implications for the local government units. In other words, the emphasis is on the administrative unit rather than the economic unit.

1.7 CHAPTER OUTLINE

This research document is structured as follows:

In Chapter Two, a synoptic overview of the South African economy and the spatial distribution of the economy is provided. The effect of the metropolitan areas' impact on

the provincial economic performance is highlighted and the spatial development initiatives are introduced.

A brief overview is provided on LED as well as the legislative requirements guiding LED. Additionally, the current LED Policy is reviewed through an extensive literature review with the aim to identify the critical shortcomings and to identify an inventory of issues that must be addressed by the revised policy.

Chapter Three introduces the concept of LED and provides a brief history of LED in South Africa. The current South African LED framework guiding LED activities is described. The emphasis is placed on the legislative framework and other relevant documentation. The Integrated Development Plan (IDP) is introduced, as is the LED Fund. Other relevant developments are also highlighted in this chapter.

In Chapter Four, the 2002 LED policy is examined and compared with the 2004 LED policy. The shift in the policy framework is identified and briefly described

In Chapter Five, the management implications due to the shift in the LED Policy are identified and ranked in terms of their importance. The Sedibeng District and its sub-components are presented. The current approach to LED as followed in this administrative area is discussed. This is augmented with an empirical investigation into the institutional arrangements relating to LED within the municipalities. The outcomes of the surveys that were conducted in the LED departments of the municipalities are presented and discussed. The inferences regarding the management implications and the surveys for the local municipalities are presented.

Chapter Six concludes the document with a summary and management guidelines for the Sedibeng area, to address the challenges of the shift in the LED policy, are recommended.

CHAPTER 2: THE ECONOMIC ENVIRONMENT IN SOUTH AFRICA.

2.1 INTRODUCTION

In this chapter the distribution of economic activity in South Africa is briefly reviewed. The chapter presents a broad overview of the national economy together with the provincial distribution of economic activities. The further chapter provides an overview of the differences between the main urban centres and the rural components of South Africa through an indication of the status quo in the various provinces. Finally, the Spatial Development Initiatives (SDI's) are introduced. The purpose of the chapter is to present a foundation from which the local "demand" for local economic development (LED) is clarified. As the economic activity is the result of the economic development initiatives and activities throughout the country, the current levels of economic activity provide a clear indication of the need for LED and the potential role for local government in this development field.

2.2 THE SOUTH AFRICAN ECONOMY – A BROAD OVERVIEW

The South African economy is investigated in this section through discussing the structure and growth of the economy, the sectoral employment and employment growth rates and finally presenting an overview of the trends in the informal sector.

2.2.1 THE STRUCTURE AND GROWTH OF THE ECONOMY

The economic structure of the South African economy is discussed through the use of the proportional contribution of the various economic sectors to the aggregate economy. Constant prices (1995 as the base year) are utilised to ensure that the influence of factors such as inflation and the associated price increases are negated and that the trends in the various sectors are clearly identified in real terms. Annexure B presents a definition of each sector based on the *Standard Industrial Classification* (Central Statistical Service, 1994: 4).

Figure 2.1 presents the national production profile (proportional contribution of the different economic sectors) for 1996, 1999 and 2002 while figure 2.2 graphically illustrates the Rand value (1995 constant prices) of the sectoral outputs.

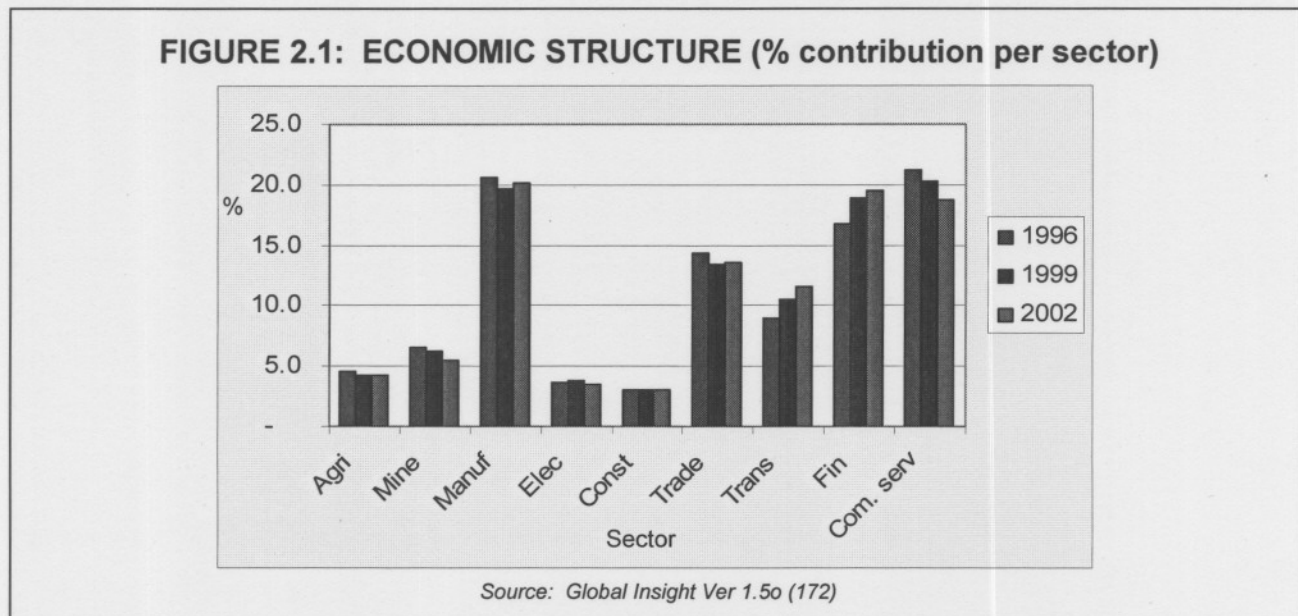


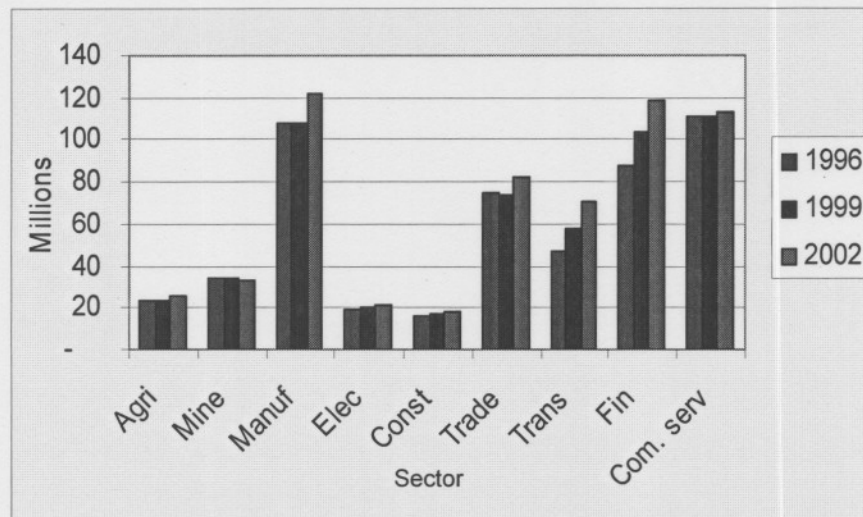
Figure 2.1 indicates that the main economic sectors include the manufacturing, trade, finance and community services sectors. The smallest sectors include the agriculture, mining and construction sectors with the transportation sector falling between the larger and the smaller sectors. The actual growth rates, as indicated in figure 2.1 are qualified in table 2.1. It is stressed that the preceding figure provides an indication of the proportional contribution (percentage) of the individual sectors to the aggregate national economy.

It is clear that the national economy is undergoing structural change (ABSA, 2002: 3) with the most important changes occurring in the aggregate economy being the relative decrease in the importance of the community services sector and the increase in the importance of the transport and finance sectors. The remaining sectors' contribution has remained relatively stable.

The real increases (in terms of constant prices) indicate other trends, such as the expansion of the transport and finance sectors, short term (1999-2002) increases in the trade, manufacturing and agriculture sectors.

The following figure (figure 2.2) provides an indication of the Rand value of the individual sectors. As mentioned in the introductory paragraph of this section, 1995-constant prices are utilised.

FIGURE 2.2: RAND VALUE OF SECTORAL OUTPUTS (R' million)



Source: Global Insight Ver 1.5o (172)

From figure 2.2 it is evident that the manufacturing, transport and financial sectors experienced that high growths. The remaining sectors, including the agriculture, mining, electricity, construction and community services sectors experienced low levels of real increases. As mentioned, the South African economy is experiencing structural change. The structural change is as a result of the shifts in the South African political environment, which brought about the end of political and economic isolation in the early 1990's (ABSA, 2003: 2). Additionally the structural change is attributed to more common factors such as the transition to a "new" economy, trade liberalisation, and globalisation.

The structural changes need to be understood in the light of the fact that the national economy can be regarded as the aggregate of the various regional and sub-regional economies. These issues and changes need to be taken into consideration during local or sub-regional development initiatives. The key structural issues and changes that will play a major role in shaping the future of the individual sectors in the economy, according to ABSA (2002:3) are:

- i. Greater exposure to competitive pressures and international trade opportunities
- ii. A decade of job losses
- iii. Improved export opportunities and performance
- iv. Tight fiscal policy and an improved government fiscal position
- v. Declining inflationary pressures
- vi. High real interest rates, but movements towards a lower interest rate environment
- vii. Declining population growth (Aids and declining fertility rates)
- viii. A savings deficiency, moderate rates of fixed capital formation and thus limited growth in potential output
- ix. Constraints on the balance of payments and capital flows
- x. A highly competitive currency

The sectoral growth rates provide an indication of the *average annual growth rate*. Table 2.1 presents the average annual economic growth rate (hence called "growth rate") for two selected periods, namely 1996-1999 and 1999-2002.

TABLE 2.1: SECTORAL ECONOMIC GROWTH RATES (%)		
SECTOR	1996-1999	1999-2002
Agriculture	-0.41	3.23
Mining	-0.07	-1.46
Manufacturing	0.14	4.22
Electricity	2.43	1.19
Construction	1.18	3.40
Trade	-0.11	3.44
Transport	7.14	6.68
Finance	5.90	4.36
Community Services	0.25	0.59
Total	1.88	3.17
Source: Own calculations based on Global Insight Ver 1.5o (172)		

The following key observations are evident from table 2.1:

- The agriculture sector experienced relatively limited contraction during the 1996-1999 period but recorded significant levels of expansion during 1999-2002

- The mining sectors' contraction accelerated over the two periods under review. The mining sector was further the only sector that experienced negative growth over the periods under review
- The manufacturing sector went through a period of increased expansion between 1996-1999 to the 1999-2002 period
- The transport sector experienced the highest growth levels compared to the other sectors – the growth rate between 1999-2002 was 6.68%
- The finance sector recorded the second highest growth rate of 5.90% and 4.36% for the 1996-1999 and 1999-2002 periods respectively

It is evident that the national economy grew at relatively low rates for the selected periods. According to ABSA (2003: 12), the economic growth prospects for the aggregate economy between 2003 and 2008 are 2.9%. ABSA (2003: 5) states that the following key issues will impact on the economic environment in future:

- The economy will continue to grow at approximately 2.9%
- Formal employment will continue to decrease.

The macroeconomic developments will have an impact on decision-making by individuals (households), businesses, investors and government agencies. The growth in the formal economy, accompanied by the decrease in the formal employment levels, implies that the unemployment will increase. An increase in unemployment will place additional pressures on government institutions to facilitate employment creation initiatives. The following section discusses the trends in formal employment in greater detail.

2.2.2 SECTORAL EMPLOYMENT AND EMPLOYMENT GROWTH RATES

Poor employment prospects characterised the South African labour market during the past decade but indications are that the employment environment is improving. Steadier economic growth around a stronger medium-term trend is beginning to benefit employment creation (SARB, 2003: 23). Figures obtained from the 1996 and 2001 Population Censuses indicate that overall employment in South Africa rose by 470 000

between 1996 and 2001). Table 2.2 presents the sectoral employment for the various sectors (as indicated in section 2.2.1 and Annexure B).

TABLE 2.2: EMPLOYMENT ACCORDING TO NATIONAL CENSUS ('Millions)			
SECTOR	1996	2001	Change (%)
Agriculture, hunting, forestry and fishing	0.81	0.96	17.9
Mining and quarrying	0.54	0.38	-29.2
Manufacturing	1.12	1.21	7.8
Electricity, gas and water supply	0.11	0.07	-34.5
Construction	0.56	0.52	-6.2
Wholesale and retail trade	1.10	1.45	62.5
Transport, storage and communication	0.48	0.44	-8.5
Financial, insurance, real-estate and business services	0.68	0.90	33.0
Community, social and personal services	1.58	1.84	16.5
Private households	1.05	0.94	-10.7
Unspecified	1.08	0.86	-20.5
Total	9.11	9.58	5.2
Source: South African Reserve Bank, 2003: 21			

From the preceding table, the following main observations are made:

- The strongest employment growth was recorded in the financial intermediation, real estate and business services, and wholesale and retail trade sectors.
- Employment shrank by nearly a third in the mining sector and more than a third in the sector supplying electricity, gas and water. This decrease in the levels of employment implies that the individuals who lost their employment need to find alternative employment. In the event where alternative employment is not found, the individuals will remain unemployed with no (formal) source of income and might be forced into informal or illegal activities.

Notwithstanding evidence of formal-sector employment growth during 2002, Statistics South Africa (2003:15) indicates that approximately 30% of the economically active population was still unemployed in September 2002. This compares poorly with a worldwide average of about 9 % (SARB, 2003: 23). The government, organised labour

and representatives of the business community met for a Growth and Development Summit (Nedlac, 2003: 4-19) and the following key agreements were reached at the summit:

- Institutional investors, in particular retirement funds, the life insurance industry and administrators of other contractual savings, such as unit trusts, are expected to voluntarily allocate 5 per cent of their investible income to job-creating investments
- Public works programmes will be expanded through providing short-term jobs, such as the cleaning and renovation of public buildings, road construction and animal dipping services in rural areas; business enterprises will provide 72 000 learnership positions or trainee jobs for the unemployed per annum, and will be partly reimbursed through receipt of a grant and tax reductions from government, and
- Public-private partnerships at local government level will be encouraged as a way of boosting government capacity to deliver by involving private-sector expertise and finance.

Notwithstanding an improvement in labour market conditions, the prevalence of the HIV/Aids pandemic continue to cost lives and absorb resources. The Joint United Nations Programme on HIV/Aids (UNAIDS, 2003: 75) estimates that about 11 % of the South African population was living with this disease during 2002, of which some 4,7 million cases were between 15 and 49 years of age. The age profile of those affected by the disease is such that it impacts mostly on the economically active segment of the labour force, thereby having a negative impact on potential economic growth.

This section presented an overview of formal employment levels. A critical component of the employment is the informal economy and the associated informal employment. The trends in the informal economy are discussed in the following section.

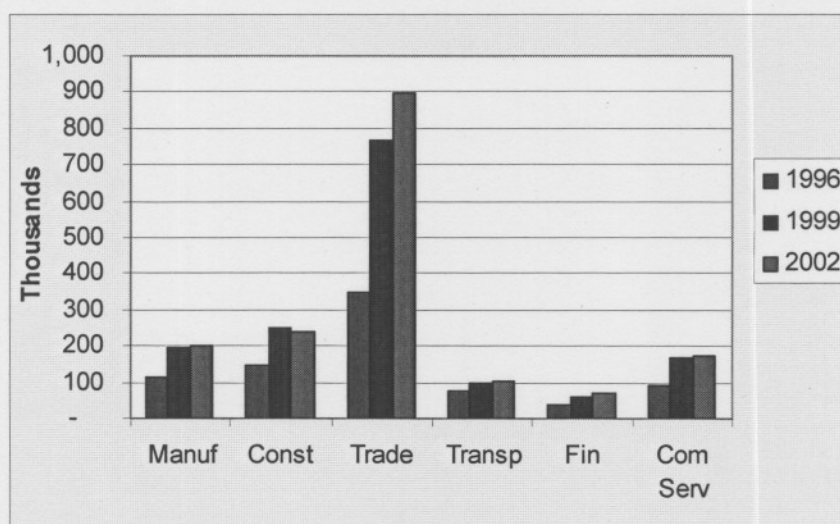
2.2.3 TRENDS IN THE INFORMAL ECONOMY

The informal economy has been defined in many different ways. For the purpose of this study, the definition used will be broad: the informal economy is defined to encompass all economic activities pursued without the sanction of the authorities; i.e. those not recorded in the national accounts but excluding illegal activities (Hartzenburg and Leiman, 1992: 187). This clearly differs from the narrower definitions found in

development literature, which often confine informal activity to the urban poor (Abedian and Smidt, 1990: 405; Bond, 2002: 19; Weiss, 2002: 4).

The following overview of the informal sector utilised the employment levels within the sector as an indication of the trends experienced in the informal economy in terms of employment levels. Figure 2.3 presents the number of individuals active in the different informal economic sectors and is interpreted together with table 2.3 that provides the (informal employment) growth rates for the 1996-1999, 1999-2002 and 1996-2002 periods.

FIGURE 2.3: TRENDS IN INFORMAL SECTOR EMPLOYMENT



Source: Global Insight Ver 1.5o (172)

The trade sector employment dominates the informal sector and has experienced the most significant growth and is followed by the construction and manufacturing sectors. The remaining sectors have all experienced moderate increases in the levels of employment and do not employ as many individuals as the trade sector. Table 2.3 presents the average annual growth rate in the employment levels in the informal sectors.

The trade and wholesale sector recorded the highest growth rate for all three periods and was followed by community, social, and personal services and the manufacturing sectors. The total employment throughout the informal economy grew at 12.8% over

the 1996-2002 period. A key observation is that all the sectors experienced a considerably higher growth rate during the 1996-1999 period than the 1999-2002 period.

**TABLE 2.3: INFORMAL SECTOR EMPLOYMENT GROWTH RATES
(AVERAGE ANNUAL GROWTH RATE - %)**

Sector	1996-1999	1999-2002	1996-2002
Manufacturing	20.80	0.54	10.21
Construction	18.85	-1.65	8.12
Wholesale and retail trade	30.42	5.31	17.19
Transport, storage and communication	9.16	1.75	5.39
Financial, insurance, real estate and business services	13.58	5.70	9.57
Community, social and personal services	21.53	1.18	10.89
Total	23.59	2.98	12.81

Source: Own calculations based on Global Insight Ver 1.5o (172)

Compared to the formal sector employment growth rates (refer to table 2.1) it is clearly evident that the employment levels in the informal economy experienced higher rates of growth for all the periods reviewed. It is therefore clear that the formal economy is not able to absorb all the new entrants into the labour market. The low absorption of individuals into the formal economy is forcing the individuals to attempt to generate income from informal economic activities. The subsequent section investigates the spatial distribution of the economic activities on a national basis.

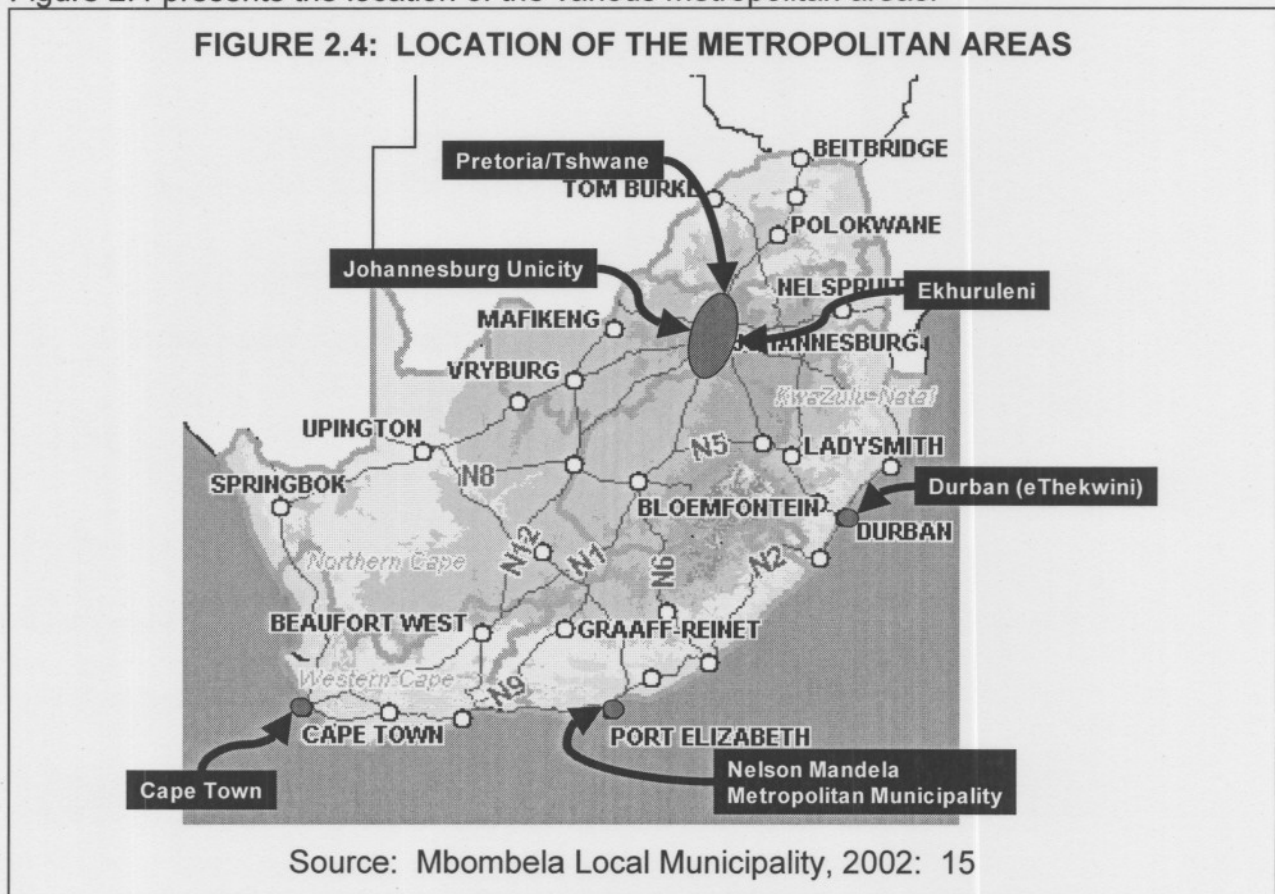
2.3 SPATIAL DISTRIBUTION OF ECONOMIC ACTIVITIES

According to Prud'homme and Lee (1999: 1851) globally, urban regions generate substantial economic activity because of their density of population, which enables them to combine highly specialized production skills with a diverse range of such skills. Urban areas have the potential to improve economic productivity and foster technological innovation that is needed to attract investment, promote trade, and compete effectively in global markets. The relationship of the major cities to their surrounding towns and rural areas are critical for creating overall prosperity and quality of life for the provinces and the nation (Weiss, 2002: 2). The level of contribution of the main urban concentrations to the national economy is investigated to quantify the magnitude of the metropolitan areas' influence on the national economy. The six

Category A municipalities (Annexure C delineates the three levels of municipalities or Category A, B and C municipalities) or Metropolitan areas are:

- Johannesburg Unicity
- Pretoria (Tshwane)
- Ekurhuleni (the former East Rand)
- Nelson Mandela Metropolitan Municipality (Port Elizabeth)
- Durban (eThekweni)
- Cape Town

Figure 2.4 presents the location of the various metropolitan areas.



The spatial distribution of economic activity in the context of the national economy is reviewed by providing an overview of the proportional contribution of the provinces to the national economy, an indication of the metropolitan areas' share of the national economy and an overview of the provincial economies net of the metropolitan areas.

2.3.1 PROVINCIAL ECONOMIES & GROWTH RATES

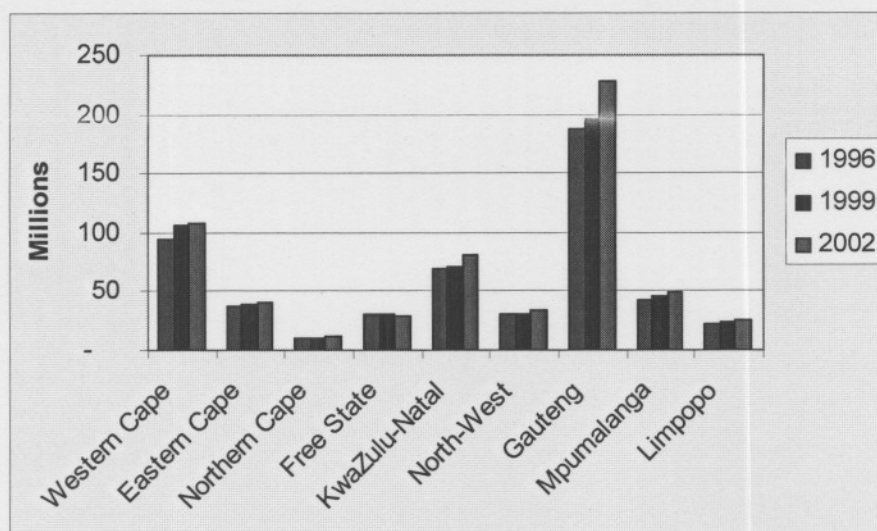
The South African provinces are unique as far as their (economic) characteristics are concerned. Gauteng is the most urbanised province with virtually no rural hinterland (DPLG, 2003: 9) – thus making it decisive for its municipalities (predominantly its metros) to play a significant role in promoting economic development initiatives. According to Morgenrood (2004:2) the Western Cape follows closely as far as urban concentration is concerned, although it has a sizeable rural hinterland, which brings its own challenges and difficulties.

KwaZulu-Natal also has large urban concentrations in the coastal belt and an even larger rural hinterland, which has some deep rural areas. The Eastern Cape finds itself with two urban concentrations, namely the Nelson Mandela Metropolitan Municipality (Port Elizabeth) and Buffalo City (East London) – but is faced by a massive hinterland – lacking in transport, amenities and economic opportunities.

The Free State and North West are similar to each other with both economies supported by agriculture and declining mining activities. In the cases of Mpumalanga, Limpopo and the Northern Province, municipalities are small and the rural hinterlands large with the provinces having limited economic opportunities.

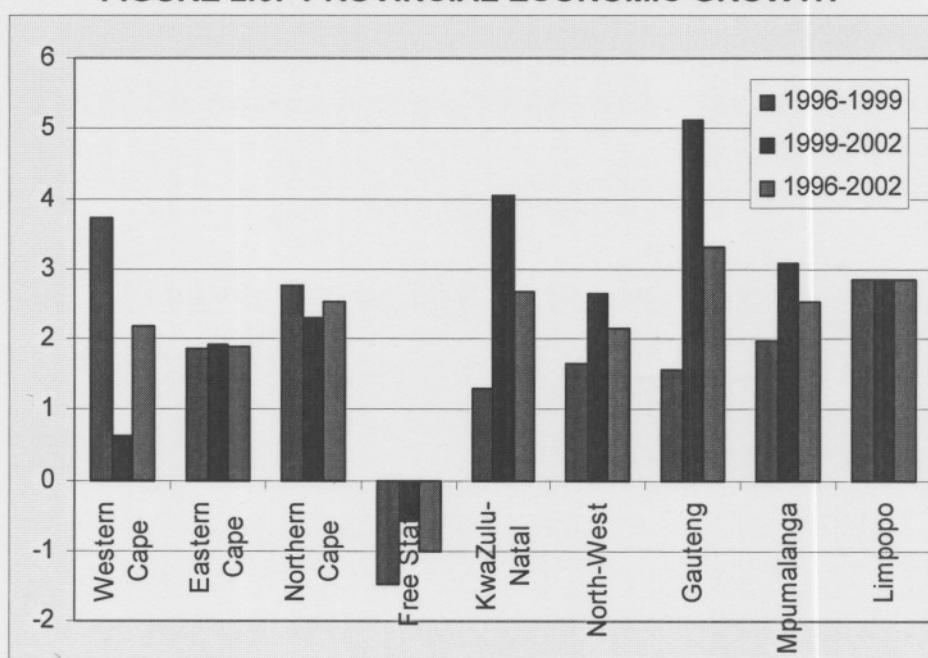
The nine provinces make varying contributions to the national economy. Figure 2.5 presents the Gross Geographic Product (GGP) contributions of the various provinces to the national economy while figure 2.6 indicates the growth rates of the various provincial economies for selected periods. GGP is defined by Investorwords (2004) as follows:

“Gross Geographic Product” or GGP is the total market value of all final goods and services produced in a specific area in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

FIGURE 2.5: GGP CONTRIBUTION TO THE NATIONAL ECONOMY

Source: Global Insight Ver 1.5o (172)

It is evident that the Gauteng economy is the dominant provincial economy and the “economic hub” of South Africa (Bloch, 2000: 231) and is followed by the Western Cape and KwaZulu Natal. The Northern Cape province is the smallest followed by Limpopo Province while the North West Province and the Free State province are almost similar in size. The following figure (see figure 2.6) provides an indication of the growth rates experienced in the various provinces. .

FIGURE 2.6: PROVINCIAL ECONOMIC GROWTH

Source: Global Insight Ver 1.5o (172)

The key observation from figure 2.6 is the high levels of growth recorded in Gauteng, and the Western Cape (the two main economic provinces with metropolitan areas). The second observation is that the Free State province experienced negative economic growth. While additional inferences can be made from the preceding, the focus needs to be placed on the role of the various metropolitan areas' impact on the overall growth of the various provinces. The economic growth of the provinces without metropolitan areas is discussed in section 2.3.3. The following section discusses the metropolitan areas' contribution to the national economy.

2.3.2 METROPOLITAN AREAS' SHARE OF THE NATIONAL ECONOMY

As indicated previously (see figure 2.4), there are 6 metropolitan (Category A) municipalities in South Africa, which contribute approximately 60%. The contribution of the metropolitan areas toward the national GDP is reflecting an upward trend (refer to table 2.4). In 1996 the 6 metropolitan areas contributed 56.9% to the national economy, which increased to 57.9% in 1999 and 59.0% in 2002.

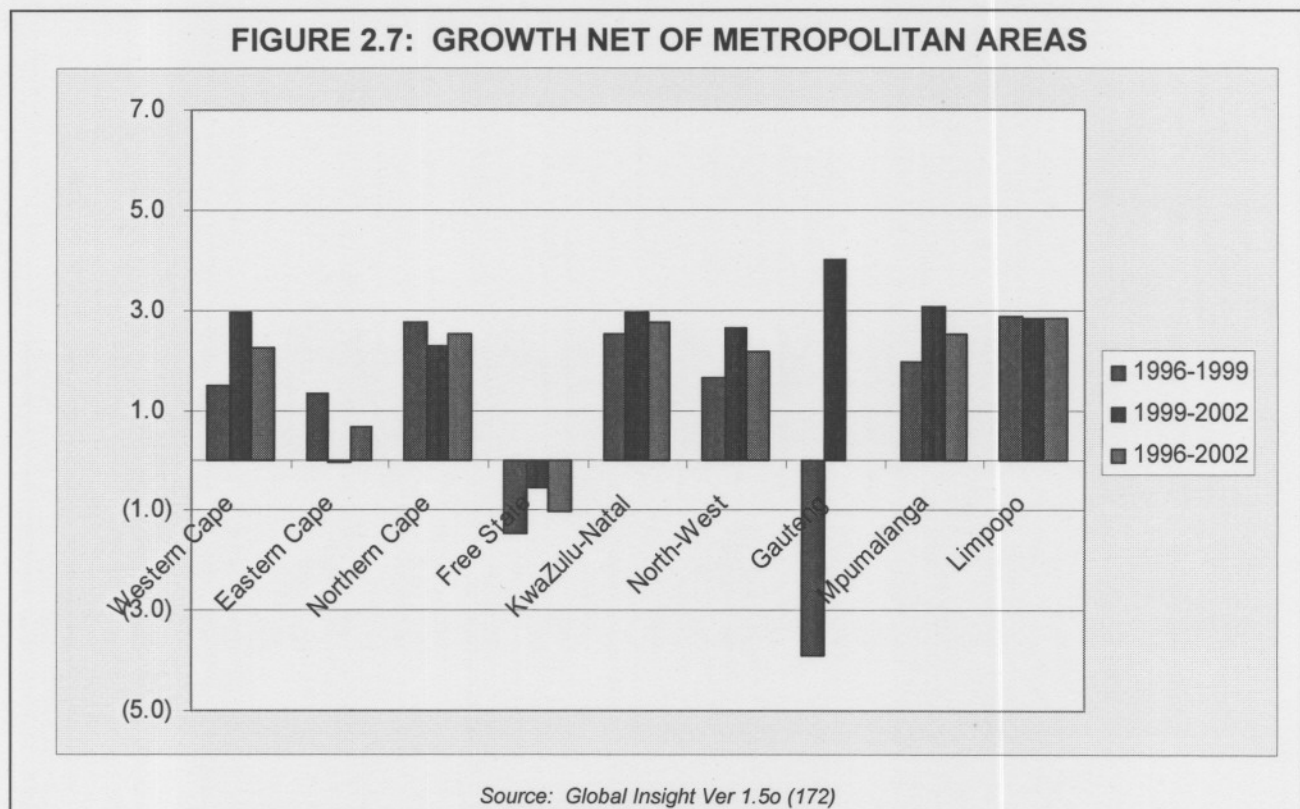
TABLE 2.4 METROPOLITAN AREAS' SHARE OF NATIONAL GDP			
AREA	1996	1999	2002
Cape Town	13.71	14.75	13.40
Nelson Mandela Metro (PE)	2.79	2.86	2.98
Durban	8.30	7.98	8.35
Tshwane	8.87	9.33	10.27
Johannesburg	15.20	16.35	16.70
Ekurhuleni	8.01	6.64	7.34
Total	56.87	57.91	59.04
Source: Calculations based on Global Insight Ver 1.5o (172)			

According to Weiss (2002: 2) such levels of urban-rural concentration are in line with global trends where the urban areas contribute between 50% - 80% towards the national GDP. This urban share of the GDP is generally larger than the proportion of the national population that is living in cities and towns, meaning that the urban economies have higher output levels (production levels) than rural areas.

The metropolitan areas have a significant influence on both the respective provinces within which they are located but as well as the national economy. The next section investigates the provincial performance if the metropolitan areas are excluded.

2.3.3 PROVINCIAL PERFORMANCE NET OF THE METROPOLITAN AREAS

In order to investigate the provincial performances and the relative role of the metropolitan areas on the provinces within which they are located, it is necessary to review the various provinces' economic growth rates if the metropolitan areas are omitted. Figure 2.7 offers the economic growth rates of the various provinces net of the metropolitan areas.



The figure indicates that the metropolitan areas have a significant impact on the provincial economies in terms of growth rate (if compared to figure 2.5). The Gauteng province experienced the highest degree of impact, while the KwaZulu Natal economic growth rate also experienced significantly lower levels of growth net of the metropolitan area. A similar pattern for the Eastern Cape and a similar, yet not so dramatic, pattern emerges for the Western Cape.

The provinces that do not have a metropolitan area experienced short term growth (1999-2002) of less than that of the provinces with metropolitan areas. The provinces that do not have a metropolitan area and which experienced the relative low economic growth include the Northern Cape-, North West- and Limpopo provinces. The Mpumalanga province recorded the second highest growth rate while the Free State province is the only province that experienced a negative growth rate during the three periods under review (see figure 2.7).

With reference to long term growth (1996-2002), the Limpopo province experienced the highest growth followed by KwaZulu Natal, Mpumalanga, Northern Cape and the Western Cape. The two lowest performing provinces were the Eastern Cape and the Free State province.

Thus, the metropolitan areas have a considerable impact on the economic performance of the larger region (province). The influence of the provinces on the growth should also be viewed in terms of the location of the population distribution. In table 2.5 the levels of potentially economic active population in the metropolitan areas are presented. The potentially economic active population includes the component of the population that is aged between 15 years and 65 years of age i.e. the labour force.

TABLE 2.5 METROPOLITAN AREAS' SHARE OF NATIONAL POTENTIALLY ECONOMIC ACTIVE POPULATION

AREA	1996	1999	2002
Cape Town	7.95%	8.00%	7.96%
Port Elizabeth (Nelson Mandela)	2.70%	2.68%	2.69%
Durban (eThekweni)	8.43%	8.43%	8.43%
Pretoria (Tshwane)	6.33%	6.28%	6.23%
Johannesburg	8.55%	8.51%	8.43%
East Rand (Ekurhuleni)	7.43%	7.41%	7.37%
Total	41.40%	41.30%	41.11%

Source: Own calculations based on Global Insight Ver 1.5o (172)

Approximately 41% of the national population resides in the metropolitan areas with the remaining 59% living in the non-urban areas of South Africa. This implies

that approximately 60% of the economic output is achieved by only 40% of the population.

The government of South Africa has, in an effort to distribute the economic activity to the non-urban areas, initiated the Spatial Development Initiatives or SDI's. The following section presents an overview of the SDI's in terms of their implications for local government.

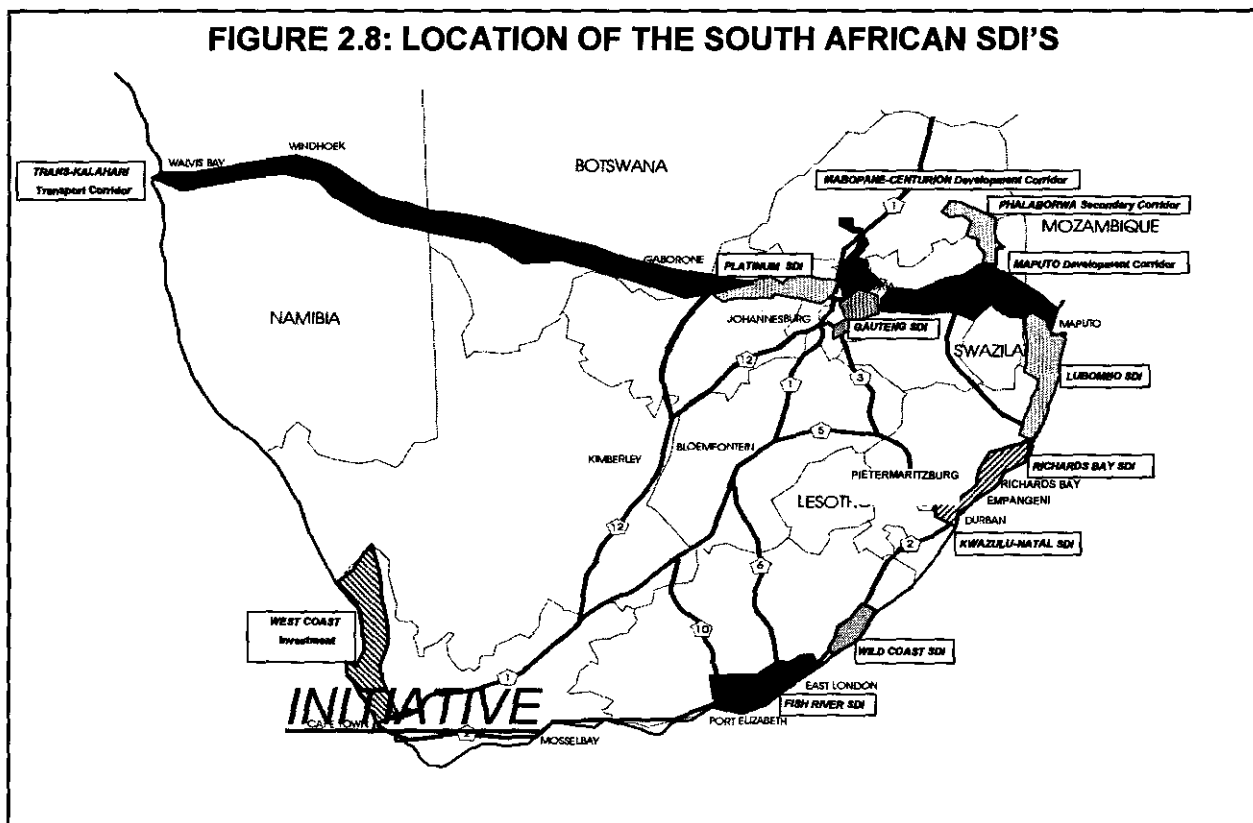
2.4 SPATIAL DEVELOPMENT INITIATIVES (SDI'S)

Cities, towns and villages face vastly different realities and challenges. Opportunities in a small municipality are profoundly different to those of a well-resourced city (Allan, 2003: 10).

Economic growth, and in particular employment growth, represents the most critical challenge currently facing South Africa and according to Luiz (2002: 594) the pressure on government to deliver an improved quality of life is immense. The South African government has recognised that the private sector has an important role to play in stimulating employment through new investment. For this reason, the Spatial Development Initiative (SDI) programme was received by the Cabinet in 1995 as an attempt to improve the functioning of government in targeted regions of the country. The SDI programme therefore serves as a special purpose initiative to stimulate growth in designated high potential areas.

National policy seeks to promote economic growth and employment creation through a number of other strategies that have impacts at the local level. In contrast to the LED initiatives of the Department of Provincial and Local Government (DPLG), the Department of Trade and Industry (DTI) has pursued market-orientated programmes that take as their point of departure, the need to engage with global market forces through the creation of national and local competitive advantage. While in theory they are intended to connect with the LED initiatives of municipalities, in practice they follow a different logic and are pursued by agencies and role-players that do not always co-ordinate their efforts with those of local role-players.

Jourdan *et al* (1996:2) states that the term “spatial development initiative” or SDI’s was coined by the (then) National Department of Trade and Industry and Transport to describe a programme of strategic initiatives by government aimed at unlocking inherent and under-utilised economic development potential of certain spatial locations in South Africa. There are at least 15 SDI’s in the Southern Africa Development Cooperation (SADC) region. In addition to the SADC SDI’s, there are 12 SDI’s in South Africa. The 12 SDI’s in South Africa are shown in the figure 2.8.



Source: Mbombela Investment Strategy, 2002: 9

The 12 SDI's, as indicated in the preceding figure, are the Maputo Development Corridor; the Lubombo SDI; the Richards Bay–Empangeni SDI; the West Coast Investment Initiative; Phalaborwa SDI; the Pietermaritzburg/Msunduzi SDI; Platinum SDI; Durban and Blyde SDI's; the Gauteng Special Economic Zones; the Wild Coast SDI and the Fish River SDI. The latter two are located in the Eastern Cape Province. The main objectives of the SDIs are (Jourdan *et al*, 1996: 2) to:

- Generate sustainable economic growth.
- Stimulate growth in relatively underdeveloped rural areas.

- Boost direct investment.
- Stimulate job creation and long-term employment.
- Ensure local community empowerment.
- Generate internationally competitive growth of key sectors.

The SDI's vary in development focus, ranging from mixed sector activities (e.g. Maputo Corridor) and pure industrial development (e.g. the Fish River SDI) to agro-tourism (e.g. the Wild Coast SDI) and second generation SDI's (which focus on high-tech manufacturing, information technology development, cultural development and telecommunication). The Gauteng Special Economic Zones (SEZ's) are examples of the latter.

In cooperation with the Department of Trade and Industry's investment incentives (which includes the Small/Medium Manufacturing Development Programme, a foreign investment grant of up to \$250.00, an accelerated depreciation allowance and an Exports Marketing and Investment Assistance Scheme), the SDI programme is intended to create a conducive environment for stimulating direct domestic and international investment. An important element of the SDI programme is the establishment of **Industrial Development Zones**, of which East London is an example. Other proposed IDZ's are Coega (near Port Elizabeth), the Saldanha IDZ and the Richards Bay IDZ. IDZ's are, similar to the internationally Free Trade Zones (FTZ's) and Export Processing Zones (EPZ's), designated **customs-privileged areas** in which industries are exempt from import duties, *but where South African labour legislation and environmental controls apply*.

IDZ's have been identified as a strategic export-manufacturing platform into African and overseas markets. The IDZ's are not meant to provide an alternative to existing supply side measures, but rather to concentrate and augment existing incentives, government resources and institutional (public and private) effort in strategic locations in such a manner that South Africa's competitiveness is enhanced. The key features of IDZ's, according to Jourdan *et al* (1996: 5) are:

- A focus on export-orientated manufacturing.
- A duty-free status for imported raw materials / components (intermediaries).

- National and local government incentives.
- A location adjacent to a port or airport to facilitate easy import and export of goods.
- World-class infrastructure and services.
- Provision of the latest information technology for global communications.
- An IDZ management company to streamline administration.

The SADC countries have gone to great lengths to promote economic development in the region. The most important initiative in Mpumalanga and Mozambique is the Maputo Development Corridor (MDC) and its manifestations through various anchor projects. The MDC is primarily focused on trans-border integration. This initiative, in tandem with facilitative legislation in South Africa and Mozambique, provides ideal opportunities for foreign direct investment focused on **value adding operations** and subsequent **exports** (Mbombela Local Municipality, 2002: 119). In South Africa however, where the focus has largely been on infrastructure upgrading, it should also be noted that interest expressed by South African companies in, what appears to be lucrative mega investment projects has been limited - foreign investors have taken up most opportunities.

The SDI's, through the provision of infrastructure, aims at unlocking latent development potential. While linking the main economic regions with more rural areas, a key feature of the SDI's is that the local municipalities should drive the exploitation of development opportunities along the SDI's. **However, the different local municipalities along the various SDI's are yet to define their roles and functions.** Furthermore, limited investment has, as yet, been attracted in mega projects at prominent nodes along the SDI's. Public sector funding can be instrumental in creating financially attractive economic development zones throughout the regions transversed by the SDI's.

2.5 CONCLUSION

The bulk of economic development and growth is taking place in the major metropolitan areas, which are attracting the resources from the surrounding rural areas. Strategic economic development interventions in the form of the SDI's are of such nature that they cross large parts of "rural" South Africa in an attempt to link the urban areas with strategic export areas. The economic growth rate, net of the metropolitan areas, is

relatively low and it is thus concluded that the peripheral economic areas do not contribute meaningfully to the aggregate economy. In the light of this spatial economic disparity the LED environment needs to be investigated. In other words, the non-urban municipal areas' approaches to LED need to be evaluated.

The following chapter investigates the LED framework and relevant legislative issues which are guiding the delivery of LED by the local government structures in South Africa and introduces the Integrated Development Plan (IDP), the main development instrument employed by local government. The current South African LED framework is discussed in the next chapter and provides an overview of LED in general as well as the legislation and policies guiding local municipalities in LED delivery.

CHAPTER 3: THE LOCAL ECONOMIC DEVELOPMENT FRAMEWORK IN SOUTH AFRICA

3.1 INTRODUCTION

Local Economic Development (LED) is a new mandate for local government in South Africa (Nel, 2001(a): 1020). Chapter 2 indicated that the majority of formal economic activities are concentrated in the main urban concentrations throughout the country which houses approximately 41% (see table 2.5) of the population, with the remaining 59% of the population residing in non-urban areas. This chapter provides an overview of LED from an international perspective, and introduces the legislative framework in South Africa guiding LED delivery. The overview of LED from an international perspective relates specifically to LED and not the entire economic development and development field *per se*. An evaluation of current LED delivery in South Africa will also be presented. Additionally, the Integrated Development Plan (IDP), the main implementation instrument utilised by local government, is presented.

3.2. LOCAL ECONOMIC DEVELOPMENT – A POINT OF DEPARTURE

The aim of this section is to provide a point of departure from where the current problems in the South African LED system can be described. A wide range of definitions of LED exists. Trousdale (2003: 1) defines LED as follows:

“Local economic development (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 a tool to help create sustainable jobs and improve the quality of life for everyone, including the poor and marginalized. Local economic development encourages the public, private and civil society sectors to establish partnerships and collaboratively find local solutions to common economic challenges. The LED process seeks to empower local participants in order to effectively utilize business enterprise, labour, capital and other local resources to achieve local priorities (e.g., promote sustainable jobs, reduce poverty, stabilize the local economy and generate municipal taxes to provide better services)”.

Helmsing (2001: 64) defines LED as follows:

"Local economic development (LED) is a process in which partnerships between local governments, community-based groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined territory. LED emphasises local control, using the potentials of human, institutional and physical resources. Local economic development initiatives mobilize actors, organisations and resources, to develop new institutions and local systems through dialogue and strategic actions. "

Nel (2001(a):1005) defines LED as follows:

"LED, is essentially a process in which local governments and community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each-other, to create new jobs and stimulate economic activity in an economic area."

Although these definitions cannot be taken as the final statement of what LED is, they do provide a broad insight into the overall orientation of the concept. Furthermore, it can be argued that there are three variants of LED which are currently in existence in the country (Nel, 2001(a): 1012), namely:

- **Community based economic development** may be applied to both rural and urban settings, though a number of characteristics would necessarily change. The focus of community economic development relates to the empowerment of communities to drive their own LED initiatives
- **Business or enterprise development.** This broad category consists of initiatives that directly target and involve (cluster of) enterprises. A number of the principles of enterprise development policies apply differentially to small, medium and larger enterprises.
- **Locality development.** This refers to overall planning and management of economic and physical development of the area.

With reference to the types of LED, one could argue that community economic development would apply to all localities and regions, while enterprise development initiatives have their greatest relevance in those localities and regions which have an economic or export base and which by implication are participating, or seeking to

increase their participation, in the spatial economy. Issues of locality development policies have their greatest relevance in the more urbanised areas.

The 2002 LED Policy: "Refocusing Development on the Poor" defines LED as follows (DPLG, 2002: 15):

"From central government's perspective, the most important objectives for LED are job creation, sustainable urban and rural development, and explicit pro-poor approaches within a holistic LED strategy. LED is to be broadened and deepened to meeting, first and foremost, the needs of the poor, women, children and people living with HIV/Aids. Within the newly-demarcated districts, small towns should be given higher priority."

Meyer-Stamer (2002: 5) states that the policy is contributing to the uncertainty at local government level with reference to the application of LED *vis-a-vis* community development.

3.3 VARIOUS APPROACHES TO LED

Various definitions of LED were presented in the preceding section (section 3.2) but for the purpose of this research, LED is defined as follows (compiled from Nel, 2001(a): 1005; Helmsing, 2001: 64; Trousdale, 2003: 1.):

"LED is a participatory process where the local role-players interact to develop, grow and strengthen the economic base of a geographic locality. These activities are focused at improving the business environment which will result in the identification of barriers to spontaneous economic growth, formulating and implementing measures to overcome the barriers while exploiting economic and business opportunities. The result should reduce transaction costs and improve the quality of local production factors in a manner through which employment opportunities are created and sustained. "

Based on the preceding definition, the essence of LED is about creating employment and jobs at the local level. The main approach to do so is:

- to create a favourable environment for business
- to promote the competitiveness of firms
- to create opportunities for new businesses, be they external investors or local entrepreneurs.

The World Bank (2002) defines the goals of LED to include issues of job creation, empowerment, the pursuit of economic growth, the restoration of economic vitality and diversification in areas subject to recession. Additionally, establishing the 'locality' as a vibrant, sustainable economic entity and addressing spatial economic disparities are also goals of LED (refer to section 2.3). LED is an activity of increasing importance in the developing world as globalisation produces new roles for local governments (Philander and Rogerson, 2001: 74; DPLG, 2003: 2). Since the 1960s, LED has passed through three broad stages or 'waves' of development – see table 3.1. LED is currently in its 'third wave'. Although LED has moved through each of these waves, elements of each wave are still being practiced. Table 3.1 summarizes the three waves of LED in terms of its focus and instruments.

TABLE 3.1: WAVES OF LED

WAVE	FOCUS	INSTRUMENTS
1 st Wave: 1960's – 1980's	During the first wave the focus was on: • Attracting mobile manufacturing investment • Attracting outside investment • Attraction of foreign direct investment • Providing hard infrastructure investments	• Grants • Subsidized loans usually aimed at inward investing manufacturers • Tax breaks • Subsidized infrastructure investment • Expensive "low road" industrial recruitment techniques
2 nd Wave: early 1980's – mid 1990's	During the second wave the focus moved towards: • The retention and growing of existing local businesses • Investment attraction, but usually this was becoming more targeted to specific sectors or from certain geographic areas	• Direct payments to individual businesses • Business incubators/workspace • Advice and training for small- and medium-sized firms • Technical support • Business start-up support • Infrastructure investment
3 rd Wave: Mid 1990's – onwards	The focus then shifted from individual direct firm financial transfers to making the entire business environment more conducive to business. During this third (and current) wave of LED, more focus is placed on: • Soft infrastructure investments • Public/private partnerships • Networking and the leveraging of private sector investments for the public good • Highly targeted investment attraction to add to the competitive advantages of local areas	• 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 (2002)

As evident from the preceding table, LED has been implemented in varying forms with reference to the focus and instruments used. The rationale for the shift in the focus relates to the changing demand of investors and business entities as well as shifting competitive environments. The following section presents a further overview of LED with the aim of offering a better understanding of the LED.

3.3.1 INTERNATIONAL APPROACHES TO VIEWING LED

LED is about the competitive advantage of local firms as well as the competitive advantage of the locality. Through the creation of competitive conditions at a specific locality, investment may be attracted which otherwise would go elsewhere and create jobs and income in another locality. Meyer-Stamer (2003(a): 4) identifies three broad approaches at attempting to define LED:

- One approach is to define LED as the same as national economic development, but in a downscaled way. Such defining would be inadequate as a regional/national economic development policy includes several activities, which are beyond the scope and reach of any LED initiative, and vice versa. An example includes the provision of tax breaks.
- A second approach to defining LED would be to relate it to activities that aim at promoting investment in the locality. Such an approach implies an exaggerated focus at investment attraction activities.
- A third approach at defining LED would be to include all activities, which aim at improving the well-being of the local population. This approach is too wide a definition. It is important to distinguish between local development and LED. Local development is the wider concept. Apart from local *economic* development, it includes community development, local social development and other types of local initiatives.

Meyer-Stamer (2003: 4) states that because the different types of initiatives follow different logics, pursue different goals and operate with different incentive structures, it is important to make a clear distinction between them in terms of instruments, role-players and governance:

- **Instruments:** There are numerous instruments available to national level government to promote economic development which are beyond the reach of local initiatives, such as:

- The exchange rate
- The tax rates
- Legal frameworks

At the same time, many instruments of LED are not viable for national or regional government, such as:

- The development of real estate
- Business coaching programs.

- **Role-players:** National economic development is formulated and implemented by government with non-governmental organisations (NGO's) being involved in the policy process, for instance in terms of lobbying or by sharing information and knowledge. But in terms of policy execution, there are more targets than executors. At the local level, and in particular in the context of LED initiatives, things are dissimilar. In extreme cases, LED initiatives can be designed and executed by private sector role-players without any participation of government and under normal conditions. LED initiatives involve close cooperation between government and non-governmental actors (chambers and business associations, trade unions, universities and research institutes, companies, non-government organisations or NGO's, etc.) during diagnosis, planning, implementation and evaluation.
- **Governance:** National economic development programs involve a clear definition of roles between the legislative and the executive branch of government. At a local level, role definitions are generally unclear and the definition of roles for the different role-players is one of the main challenges.

From the preceding, LED as a development approach is based on the central idea of local stakeholder mobilization, building the competitive advantages of the locality and enabling local role-players to capture and exploit market opportunities (GTZ, 2002(a)). Such an approach coincides with a global trend towards decentralization of powers from national to local government. The approach is further associated with the shift from interventionist to enabling forms of governance to promote development partnerships

between local role-players (GTZ, 2002(b)). The next section presents an overview of international approaches to LED.

3.3.2 INTERNATIONAL APPROACHES TO IMPLEMENTING LED

The rise to prominence of LED internationally is a response to heightened pressure on local economies from global market forces. Although it has a long history, its more recent forms emerged within developed societies in the 1970s. LED came to underdeveloped societies during the late 1980's, where the negative impacts of globalization were deeper, more widespread and more difficult to counter (GTZ, 2002(c)). Globalisation refers to a process (or set of processes) which embodies a transformation in the *spatial* organization of social relations and transactions, expressed in transcontinental or interregional flows and networks of activity, interaction and power. Polity (2003) states that globalisation is characterized by the following four types of change:

- First, it involves a *stretching* of social, political and economic activities across frontiers, regions and continents.
- Second, it is marked by the *intensification*, or the growing magnitude, of interconnectedness and flows of trade, investment, finance, migration, culture, etc.
- Third, it can be linked to a *speeding up* of global interactions and processes, as the development of world-wide systems of transport and communication increases the *velocity* of the diffusion of ideas, goods, information, capital and people, and
- Fourth, the growing *extensity*, *intensity* and *velocity* of global interactions can be associated with their deepening *impact* such that the effects of distant events can be highly significant elsewhere and specific local developments can come to have considerable global consequences. In this sense, the boundaries between domestic matters and global affairs become increasingly fluid.

Globalization, in short, can be thought of as the widening, intensifying, speeding up, and growing impact of world-wide interconnectedness. There have been numerous reactions/approach to globalisation from an LED implementation perspective around the world. Each approach has been based on particular assumptions about the local economy and the role of local authorities. Table 3.2 identifies and describes the six

generic international approaches to LED. During LED implementation, a combination of approaches are employed.

TABLE 3.2: INTERNATIONAL APPROACHES TO LED

Approach	Policy	Policy	Policy
Traditional	Industrial Investment attraction (including promoting investment in tourism, and from government and financial institutions)	Investment creates jobs and provides taxes, which can be used for service provision	Marketing, tax breaks, cheap land, lower rates, cheap loans, direct cash payments to attract (mainly manufacturing) investment to the area
Urban efficiency	Municipalities should raise urban productivity by lowering cost of living, investing in infrastructure, services and conducting business	Private investment creates jobs and wealth and requires cheap inputs; costs are reduced by lowering taxes and improving business services	Tax breaks, transport infrastructure
Entrepreneurial and sectoral	Identify and support the leading sectors in the local economy and invest in sunrise sectors or industries	Invest in new, emerging high-tech industries to be able to compete in the global economy.	Municipalities identify actual or potential growth sectors, nurture new industries and support SMMEs through research, loans, grants, consultancy and Public Private Partnerships (PPPs)
Progressive competitive	Support industries with potential for maximising local social benefits (focus on development of human resources, as poor people need to have appropriate skills if they are to benefit from creation of new jobs).	Support for emerging industries, but strategic intervention should be aimed at developing sectors that create the right kind of jobs for the poorest people (Companies can be required to provide training for employees)	Sectoral research and targeting; Small, medium and micro enterprises (SMME) support; research and development; focused training and placement for the poor (establish local training bodies or national training agencies in area); Public Private Community Partnerships (PPCPs)
Progressive: community based	Strategies emphasise the importance of working directly with low-income communities and their organisations	Growth can exacerbate the divide between rich and poor. Need to ensure benefits are equitably distributed. The community to be involved in conceptualising, implementing and monitoring projects	Planning permission in profitable areas is linked to investment in poorer areas. Support for Community Development Trusts and worker or community controlled businesses, 'a living wage', policies developed with business and labour
Radical redistributive and socialist	Direct intervention to equalise wealth distribution	Government intervenes in the economy to ensure more equitable distribution of income	State control over key economic sectors; local profit taxes

Source: DPLG, 2003: 16

The various approaches to LED reveals significant international variations, ranging from aggressive "urban entrepreneurialism" which characterizes the cities of North America in their quest for investment, to the localised coping strategies of impoverished communities across the world. LED strategies range from job creation and public works programmes to municipal enterprise, small business support, infrastructural provision, and training and support for small-scale farming. Nel and Binns (2001: 365) states that internationally, LED has been recognised as a key response to key contemporary trends, such as:

- Increasing decentralisation of power and decision-making to the local level, which parallels the reduction in the role of the central state in the economy in a neo-liberal era.
- Globalisation forces linked to changing local conditions are compelling local-level responses, requiring local leadership initiatives.

These trends are not unique to any portion 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. Having examined how LED developed, the major characteristics of LED will be discussed in the next section.

3.3.3 TACTICS ASSOCIATED WITH LED

Whilst the phenomenon of LED might be taking place around the world, its focus differs fundamentally from place to place. Rogerson (2002: 3) and Scott and Pawson (1999: 189) state that two broad orientations based on the main tactics, namely:

1. Market-led tactics, based on business development
2. Bottom-up or market-critical tactics, based on community development.

Market-led tactics focus on the pursuit of economic growth, investment attraction and courting the high-profile business sector, while bottom-up or market-critical tactics tend to be associated more with support for emerging micro- and community businesses. In general terms, both tactics are equally valid and it can be argued that both should be pursued in conjunction with each. Following both tactics will ensure that the needs of a wide-spectrum of stake-holders are met. Additionally, balanced growth will be provided for, ensure that capital generating large business can create meaningful spin-offs for the small and emerging business sectors.

In order to pursue either market-led and/or market-critical development, implementing agencies (such as local governments or development associations) tend to pursue standard intervention measures, which address the needs for financial, infrastructural, information, planning and training support. Development support varies from measures

designed to support large enterprises such as tax rebates, to support measures for micro-enterprises, such as training, job-banks and equity participation. Nel (2001: 1010) identified five major LED interventions, namely:

- Financial support
- Land and building development
- Information and marketing assistance
- New planning and organisational structures
- Training and Employment

LED interventions, be they market-led or market-critical, tend to have a focus on achieving set goals related to economic growth. In order to achieve such goals, support agencies pursue a definable range of programmes. The World Bank (2002) states that the most common programmes include:

- Encouraging local business growth
- Support for new enterprises
- Improving the local investment climate
- The promotion of investment
- The provision of infrastructure
- Sector support for identified lead sectors
- Area targeting to address unique challenges
- Poverty reduction to ensure equity, and
- regeneration endeavours in areas subject to economic change.

3.4 A HISTORY OF LED IN SOUTH AFRICA

The development strategy of local economic development or LED has been widely practiced in the countries of the northern hemisphere for several decades. Conversely, in the southern hemisphere, in a formal sense, it appears to be a relatively recent phenomenon (Nel, 2001: 1004).

During the 1980's, the national government followed the "*Regional Industrial Development Programme*" or RIDP. Tomlinson (2002: 113) indicates that the RIDP was intended to entice investment to rural areas in order to reduce the movements of black people to the cities. With the change in the political landscape in South Africa, the decentralisation programme fell into disrepute and the focus turned to LED as an alternative means of promoting economic development in particular localities. LED strategies were mounted in South Africa from the late 1980s by local business and civil society role-players in the context of economic decline and the legitimacy crisis of the apartheid state. From the mid-1990s, the government of national unity took over LED as part of its *developmental* approach to local government. Government linked LED to the Reconstruction and Development Programme (RDP), emphasizing a community economic development orientation. Under the Growth, Employment and Redistribution Strategy (GEAR), economic development was also pursued through market-orientated strategies that emphasized enterprise development, investment promotion and small business development. South Africa's 2002 LED Policy Paper has also decried old-fashioned investment attraction strategies, including the packaging of subsidies, tax holidays, and free infrastructure/services orientated to attracting outside industry (Bond, 2002:4). Instead, the Department of Provincial and Local Government (DPLG) promoted six "developmental" LED strategies (DPLG, 2002: 6), namely:

- Community-based development
- Developing linkages
- Human capital development
- Infrastructure and municipal services
- Retaining income in the local economy; and
- retaining and expanding local economic activity.

Other strategies are also evident in the South African context, especially in "Export Processing Zones" (EPZ's) or "Industrial Development Zones" (IDZ's) as introduced in section 2.4. These strategies are characterised by

- their top-down character
- high costs per job created (often in excess of R1 million)
- lack of inter-relationships with downstream/upstream industries, and
- very little employment potential and adverse prospects for women workers.

Since 2003, the government is in search of a more coherent approach that connects the divergent LED initiatives of different departments and levels of government. The following section presents the framework within which LED must take place.

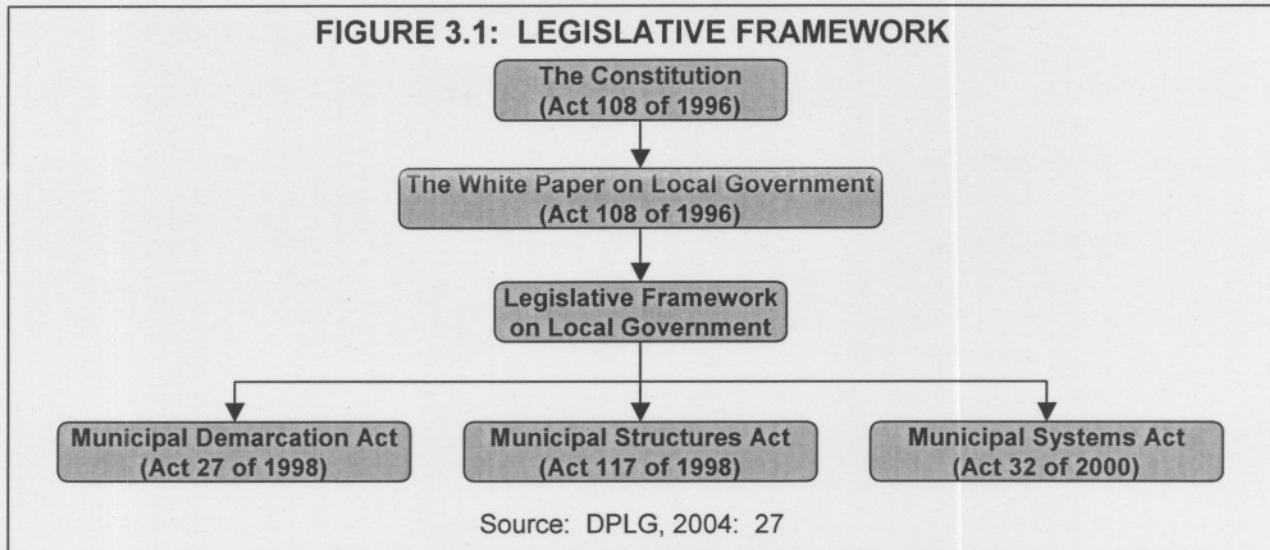
3.5 THE CURRENT LED FRAMEWORK

The LED framework consists of a number of components such as the legislative, policy, and white paper frameworks. It is emphasized that that only the policy component changed. Therefore the LED framework as a whole experienced a shift in only the one component. It is within the overall framework that the management implications of the change in the policy component are investigated.

South Africa's second local democratic elections, which were held on 5 December 2000, have ended the "transition" phase of post-apartheid local government (1995-2000) and initiated a new era in municipal administration in the country (Mawson, 2001: 335). The LED framework, or the framework within which LED service delivery needs to take place consists of two main components, namely the legislative framework and the policy framework. The legislative framework is discussed in the following section while the policy framework is the theme of the following chapter.

3.5.1 THE LEGISLATIVE FRAMEWORK GUIDING LED

Local government is legally mandated in terms of the National Constitution (Act no. 108 of 1996) to "promote social and economic development". This mandate marks a significant departure from the service-orientated focus of local government and has led to a series of important legal developments (Nel & Binns. 2001:356). The current legislative framework affecting local government (with reference to LED) is indicated in figure 3.1

FIGURE 3.1: LEGISLATIVE FRAMEWORK

3.5.1.1 THE CONSTITUTION

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 (both District and Local Municipalities) as follows: "To structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote social and economic development of the community". Several 'basic need rights' of the community are stipulated by the Constitution, which have to be addressed or ensured by government.

3.5.1.2 THE WHITE PAPER ON LOCAL GOVERNMENT

The **1998 White Paper on Local Government** established the basis for a new developmental local government system that is committed to working with citizens, groups and communities to create sustainable human settlements that provide for a decent quality of life and meet the social, *economic* and material needs of communities. The Local Government White Paper (RSA, 1998: 23), which defines the concept of "developmental local government" ("developmental local government" is discussed in section 3.5.2) refines the constitutional principles and also defines the developmental local government concept as, "local government committed to working with communities

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 White Paper redefined the objectives of local government to focus on development, including its social and economic dimensions. The White Paper was consolidated and systematised within the Municipal Structures and Municipal Systems Acts (see figure 3.1) that laid the foundation for the local government system implementation in 2000.

3.5.1.3 THE MUNICIPAL SYSTEMS ACT & THE MUNICIPAL STRUCTURES ACT

The **Local Government: Municipal Structures Act** (117/1998) clarifies the status of municipalities and provides the framework for the establishment of municipalities in accordance with the requirements and criteria relating to categories and types of municipalities. The Act further determines the appropriate division of powers and functions between categories of municipalities and regulates governance structures and electoral systems for newly demarcated municipalities.

The **Local Government: Municipal Systems Act** (32/2000) sets out the internal systems of municipalities that enables 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 (IDP). LED is one of the dimensions within the IDP and therefore, local municipalities are legally obliged to plan and pursue LED activities (DPLG, 2001: 15). 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, as defined in the Integrated Development Plans (IDP).

Local authorities are to pursue LED within the framework of IDP formed through participatory processes (the linkage between the IDP and LED is discussed in section 3.6.1). In addition, national policy gives local government some specific areas of LED competence (DPLG, 2002: 35). These are marketing for investment promotion, support

services for small businesses, assistance to targeted growth sectors and the tailoring of training and labour placement activities to local labour market conditions.

The above-mentioned pieces of legislation were developed with the aim of further clarifying the role, structure and form of local government and to facilitate and accelerate the establishment of local government which is customer centered, accountable, developmental, financially sustainable, performance orientated and committed to improving the quality of lives of the people it serves.

In addition to the legislative framework, other guidelines exist which further delineates the policy and delivery approaches that should be followed by local government. The basis for the current LED policy framework was set down in the Constitution and elaborated on in the RDP and subsequent policy documents and legislation dealing with local government since 1994.

3.5.2 DEVELOPMENTAL LOCAL GOVERNMENT.

As indicated in section 3.5.1, the South African Constitution requires local government to be “developmental”. According to the DBSA: (2000: 15) different individuals and groups, in support of different objectives, have used the phrase “developmental local government” in different ways. Various definitions (DBSA,(2000: 17; Bond, 2000: 17; and Nel & Binns, 2001: 35) for the concept of developmental local government exist:

“A vision of local government in South Africa. It points to a system of democratic local government in which the needs of all, but especially those of poor and vulnerable communities, are met by efficient and effective municipalities”

The White Paper on Local Government (SA, 1998: 23) defined developmental local government as follows:

“Developmental local government is 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”.

From the preceding definition, developmental local government can be defined accordingly:

“Developmental local government in South Africa relates to local government that is responsible, accountable and committed to facilitating local development that is participatory. The aim of developmental local government is to improve the quality of life of communities who are vulnerable and poor through economic and socio-economic development”.

According to Parnell and Pieterse (1998: 1) developmental local government is an official policy objective and broad strategic framework, and represents the first sign of the second wave of post-apartheid reconstruction. The first wave was characterised by various attempts that represented a vague understanding of how to institutionalise development policy. The new vision represents a more pragmatic approach relating to synergies between sectors, issues and institutional processes across ministries, with the intention of maximising impact on local communities. Within this revised tactic for building equitable communities, the developmental role of local government is central. Developmental local government is discussed in the subsequent section through providing an indication of developmental local government in the global context.

3.5.2.1 DEVELOPMENTAL LOCAL GOVERNMENT – THE GLOBAL CONTEXT

The challenges confronting municipalities must be viewed in the broader context. Government reform, including local government reformation has been a response to changing forces within national political economies and within the global political economy (DBSA, 2000: 25). Globalisation has created new opportunities for public management and governance, but has also imposed new constraints on the role of the state. Local government – the element of representative government closest to the people and responsible for delivering primary public service – has been at the forefront of restructuring localities and local economies (DBSA, 2000: 26).

Municipalities around the world are confronting new developmental challenges, with amended roles, new operating environments and new sets of role-players. Significant new roles are being added to their already extensive functions, and local government officials are expected to perform more efficiently and creatively in this new environment. (DBSA, 2000: 26).

3.5.2.2 INTER-GOVERNMENTAL RELATIONS

The Constitution makes provision for developmental local government (as discussed in section 3.5.2) operating within a new system of inter-governmental relations. In terms of the Constitution, the three “spheres” of government are “distinctive, interdependent and interrelated”, with the national level retaining the oversight role. The spheres are meant to function in a mutually supportive fashion, and the national and provincial spheres are obligated to support local government.

A distinction has to be made between “sphere” and “tier” as the difference has important ramifications for developmental local government. Rather than being administered as a subordinate *tier* of national government, local government has a degree of autonomy and is independent from both provincial and national government. However, the national level has overall responsibility for ensuring that national policy priorities are addressed.

National government is undertaking efforts to create a strong and quasi-independent local sphere but the efforts must be underlined by commitment by the other spheres to ensure its success. During the transitional period, when legitimate local government had yet to become fully functional, national and provincial departments developed delivery mechanisms that tended to bypass the municipal structures. These institutionalised national programmes required limited involvement by municipalities. It is argued that the successful decentralisation of activities to municipalities requires the creation of financially and socio-politically sustainable municipalities (DBSA, 2000: 5).

The drive towards developmental local government has a number of specific implications for local government and the local governance system in South Africa, which will be discussed, in the following section.

3.5.2.3 IMPLICATIONS OF DEVELOPMENTAL LOCAL GOVERNMENT

The shift in the focus and mandate of local government throughout the world, and in South Africa, places **local government at the centre of developmental activities**. In South Africa, the shift implies certain structural changes to the status of local government. According to the DBSA (2000: 35) these are:

- Functions are decentralised to the municipal sphere to ensure that local councils have the necessary power and responsibility to support development
- The demarcation of new municipal boundaries must overcome the structural weaknesses of the transitional phase
- Municipalities should have appropriate administrative capacity to reach their developmental goals. This can be achieved through restructuring the existing staff to ensure that municipal posts (particular managerial posts) are filled with appropriately trained and experienced staff (see section 5.2.1.1). Higher spheres of government should recognise that, as powers and functions are devolved to the municipal sphere, the specialised staff that previously performed those duties on behalf of the national or provincial sphere should be transferred – together with the necessary funding – to strengthen the administrative capacity of the municipal sphere.
- Developmental municipalities need to be fully funded. Municipal efforts to obtain income from local communities, in the form of municipal charges for engineering services, should be supplemented with sufficient disbursements from national and provincial spheres through the equitable share (equitable share is an unconditional allocation to provinces and municipalities of nationally collected revenues. Annexure D provides further detail relating to equitable share). Equitable share is consistent with the notion of autonomous administrations with the constitutional responsibility to govern in certain areas.

For the preceding structural changes to occur at the hand of effective service delivery the local municipalities must become the country's primary developmental agents which are be supported and strengthened by provincial and national departments (DBSA, 2000: 49). The DBSA (2000: 49) further states that several of government's initiatives, aimed at supporting and strengthening local government, have been ambiguous in terms of promoting the devolution of functions. An inter-governmental system that will enable the municipalities to fulfil their developmental role and attain developmental status will include the following elements:

- Municipalities demarcated as “developmental units”, large enough to have sufficient resources and small enough to be accessible by citizens and responsive to their demand
- Adequate revenue at local level to perform all allocated powers and functions, including those devolved from national and provincial spheres; this require the restructuring of the equitable share system and other financial mechanisms such as grants and government transfers
- Appropriately trained (and funded) frontline development staff, relocated from national or provincial spheres of government
- Multisectoral training for councillors and municipal staff
- Mentoring and ongoing support for municipalities from national and provincial departments (through departmental helpdesks and advisory teams).

The key issues, which must be addressed to facilitate an improved level of LED delivery, and therefore contribute to developmental local government, are:

- LED must be properly defined in terms of what LED is and what its goals are.
- LED must be aligned with provincial and national policy and business and market realities.
- Officials must be appropriately trained, have access to adequate funding, and be held accountable.
- Viable and sustainable projects must be pursued, whether they are led by local governments or non-government actors.

Local Government must be businesslike and accountable in its approach. Development should be a-political (within the local political frameworks).

3.6 CURRENT DELIVERY OF LED

The Integrated Development Plan (IDP) is viewed as the prescribed instrument available to local government to deliver LED, specific emphasis is placed on the linkage between the IDP and LED due to the fact that the IDP has been “conceived as a tool to assist municipalities in achieving their developmental mandates” (DPLG, 2000: 21). This

section presents an overview of the LED-planning component as contained in the IDP, together with an evaluation of the LED Fund and other current developments.

3.6.1 LED & THE IDP

The Integrated Development Plan (IDP) is the key instrument in the local government system and is a legal requirement for all municipalities in South Africa (Msengana-Ndlela, 2004: 2). 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.

The IDP essentially recognises the complex inter-relationship 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 recognise 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).

Planning for LED is part of developing an IDP. When municipal councils adopt an IDP, they formulate a vision, development objectives, and strategies aimed at realising their objectives. An example of the one of the objectives of a municipal IDP includes: "to stimulate the local economy through SMME support services" (Sedibeng District Municipality, 2003: 94). The IDP provides an action plan that is linked to a specific 5-year timeframe, which is reviewed annually. Municipal development objectives may include elements such as addressing unemployment in the local area, widening the local tax base, alleviating poverty, enhancing economic growth or redistributing wealth and opportunities. To realise these development objectives, municipalities will need to formulate strategies consisting of LED programmes and projects. The subsequent sections provide an indication of municipal capacity to formulate and implement IDP's and further provides an indication of the quality of the LED dimension of the IDP's.

3.6.1.1 MUNICIPAL CAPACITY TO FORMULATE AND IMPLEMENT IDP'S

The Department of Provincial and Local Government (DPLG), in moving towards a differentiated, targeted and direct inter-governmental planning support programme, undertook a study in 2004. The specific needs of different municipalities and provinces were investigated. The study covered all provinces and all municipalities and the results are presented in the Development Planning Indaba Report (DPLG, 2004: 9). The report indicates that:

- **28%** of municipalities in the country currently require additional capacity (financial, human resources and human capital) to be established and strengthened before they would be to undertake, manage and drive their IDP-processes. These municipalities are dependent on consultants and do not own the process due to lacking capacity. Furthermore, they do not have the capability to engage in inter-governmental discussions and activities that would enhance their planning and delivery.
- **35%** of municipalities have the basic capacity but require support in formulating and implementing their IDP. These municipalities utilize and manage consultants as resources but typically have IDP's that do not inform implementation. The development strategies outlined in the IDP are sub-standard and do not meet the minimum requirements as determined by the DPLG.
- **28%** of municipalities are able to complete an acceptable IDP but require support with implementation. These municipalities have IDP's that support a practical programme of implementation but are not in a position to deliver more than thirty-percent of their planned programmes because of a lack of capacity to manage the implementation.
- **9%** of municipalities have the necessary capacity (financial and human resources) to formulate and implement a good basic IDP. These municipalities drive and manage the process and display high levels of ownership of the process. Their IDP's are mainstreamed into the working of the municipality and decisions are based on the IDP. Consultants are used for parts of the planning and limited implementation takes place.

Most (91%) local municipalities do not have the requisite capacity to formulate an IDP and to implement their IDP's. The Resource Handbook for Municipal Councilors &

Officials (DPLG, 2001: 15) states that it is important to note that the IDP process is the single, inclusive planning process within which other processes must be integrated while informing the activities of the other government spheres. LED must be fully integrated within the IDP. The following sections provide an overview of LED in the IDP.

3.6.1.2 LED IN THE IDP

In 2003 a study was commissioned by the Office of the Premier in the Eastern Cape to evaluate IDP's throughout the province. Development economists were appointed to evaluate the LED components of the IDP's of the municipalities as inputs into the study. The indicators that were employed during the evaluation of the LED components were broad elements that had to be included in the IDP as per the DPLG Guide Pack – the official IDP manual. The LED plans (as contained in the IDP's) were assessed by utilising the following indicators:

- The LED plan should be in the form of a partnership, which include leading figures in local government and in the private sector, other institutions and the community
- The planning process should provide an opportunity to build a common economic vision and trust in the community
- The LED plan must originate at the local level, even if some of the resources harnessed, are sourced from elsewhere
- The goal of the plan should be to facilitate new business formation and small business expansion
- The plan should demonstrate an in-depth understanding of the local economy, preferably identifying a lead sector(s)
- Commitments from local stakeholders need to be reflected, as the success of an active local government depends on its ability to create trust in its initiatives and on its skills of soliciting contributions from other stakeholders

The findings of the evaluation are summarized in table 3.3. The table provides an indication of the percentage of local IDP's that conform to the minimum criteria relating to each of the elements mentioned above.

TABLE 3.3: QUALITY OF THE LED DIMENSIONS IN THE IDP'S

LED DIMENSION	PERCENTAGE CONFORMITY
Partnership	22%
A common economic vision and trust	29%
Originate at the local level	45%
Facilitate new business formation & expansion	18%
An in-depth understanding of the local economy	35%
Commitments from local role-players	36%

Source: Office of the Premier, 2003: 75-89

Table 3.3 clearly indicates that the local IDP's do not address the minimum requirements of the LED dimension with less than half the IDP's addressing the relevant criteria. Based on section 3.6.1.1 and the preceding table, it can be argued that a significant proportion of the local municipalities in South Africa are not in a position to utilize the IDP as a mechanism through which LED can be delivered. A study by Sapula *et al* (2003:5) of LED and the IDP in the Amatole District (in the Eastern Cape) identified the main reasons for the sub-par LED dimensions in the IDP as being:

- Inappropriate institutional structures
- Inappropriate approaches to the identification of LED issues and underlying dynamics, poor strategy formulation and integration of the LED strategies into the IDP
- Unclear roles and responsibility definitions of the various role-players
- Financial constraints.

The IDP as a delivery mechanism is currently not performing at optimal levels. Additionally, the IDP is complex and local government is experiencing difficulty in formulating suitable LED plans (for inclusion into the IDP's), compounding implementation challenges. Constraints contributing to the implementation challenges include administrative and human resource aspects. With reference to the financial constraints being faced by local municipalities (to deliver LED), the DPLG had established the Local Economic Development Fund (LEDF), which is discussed in the following sub-section.

3.6.2 THE LED FUND

The DPLG commissioned an evaluation into the Local Economic Development Fund (LEDF) in mid-2002. Afore the results of the instigation is presented, a brief overview of the LEDF is provided.

3.6.2.1 OVERVIEW OF THE LED FUND (LEDF)

The LEDF is regarded as a key instrument within the DPLG and was launched in 1999 with a total budget of R42 million. The LEDF provides financial support, up to a maximum of R1,5 million over 3 years, to municipalities engaging in projects that will lead to job creation, poverty alleviation and redistribution.

The LEDF is a positive and proactive response by government to the loss, or threat of loss, of jobs in the country. The LEDF has provided a significant opportunity for cooperative governance. All spheres of government are integrally involved in the implementation of the Fund. While local government is responsible for the management and delivery of projects, the provinces and national government will assist in project monitoring and evaluation. The vision of the LEDF is to support partnerships that generate sufficient innovation and energy to build a strong and sustainable national economy based on thriving and diversified local economies. According to the DPLG (2003: 5) the specific objectives of the LEDF is to support local municipalities in:

- Facilitating job creation and job retention within localities
- The creation of sustainable local economies
- Ensuring that local economic growth and activity benefits the poor and disadvantaged.
- Rural development, particularly in areas affected by backward migration from urban areas
- Targeting sectors or geographic spaces
- Addressing urban renewal
- Ensuring the participation of women at all levels.

The fund provides funding to municipalities (if successful in their applications) for the provision of infrastructure and building up of capacity of the communities to operate

businesses in the sectors identified. However, if applicants were unsuccessful, LED initiatives are not undertaken due to a lack of funding. The expected outputs and impacts of the LEDF are as outlined in table 3.4.

TABLE 3.4: LEDF EXPECTED OUTCOMES AND IMPACTS

OUTCOMES	IMPACTS
• Short-term jobs largely through the construction of project infrastructure. • Long-term jobs through the creation of new business opportunities, business infrastructure developments, stimulation of industries, etc. • Training and human resource development. • Linkages between suppliers and markets, poor and affluent communities, municipalities, housing projects and job opportunities, etc. • Urban renewal through the revitalisation of disused buildings and urban spaces. • Rural development through projects that generate supplier networks and accessible markets. • Women's development through the support of women's projects.	• The anticipated impact of the LED Fund will be: linkages both geographically and sectorally within the municipality, agglomeration of economic activity within municipalities, urban renewal, rural development, sustainable local economies and women's development • Within the municipality the impact should be LED institutional capacity, the re-alignment of municipal budgeting processes with development processes and with the development objectives of local government. • Municipalities will also be engaging in new and innovative partnerships with local, provincial and national role-players • Small businesses set up will form partnerships with established businesses and jointly create the capacity to pursue larger and international markets.
Source: DPLG, 2003: 35.	

In order to provide insight into the relative performance of the LEDF, the budget disbursements and the jobs created are discussed in the next section. Table 3.4 presents the Medium Term Expenditure Framework (MTEF) of the LEDF (in Rands):

TABLE 3.5: MEDIUM TERM EXPENDITURE FRAMEWORK

Province	1999/2000	2000/01	2001/02	2002/03	2003/04	Total
Eastern Cape	5 200 000	10 481 510	10 882 747	13 992 784	18 428 119	58 985 161
Free State	3 139 830	6 286 890	7 289 027	9 426 508	12 342 753	38 485 008
Gauteng	2 902 250	7 563 500	6 036 157	7 806 762	10 221 228	34 529 894
KwaZulu Natal	6 698 597	12 500 431	10 741 047	13 891 753	18 188 173	62 020 001
Mpumalanga	3 627 517	4 884 409	8 566 519	11 102 371	14 505 972	42 686 788
Northern Cape	3 738 090	6 250 210	5 917 383	7 639 000	10 020 101	33 564 784
Limpopo	7 494 800	13 150 831	10 994 456	13 829 922	18 617 279	64 087 288
North West	2 913 019	5 824 374	9 208 280	12 349 732	15 592 687	45 888 092
Western Cape	3 285 922	5 057 845	5 364 384	6 887 936	9 083 690	29 679 777
TOTAL	39.000.000	72.000.000	75.000.000	96.926.768	127.000.000	402.926.794
*Allocations include the social plan grant						
**Allocations per municipality not finalised in FS, KZN, NC and NW and up to 30% is set aside for contingency						
Source: DPLG, 2003: 15						

The total funding available has grown to R 127 million in 2003/4 from R 39 million in 1999/2000 which translates into an average annual growth rate of 26.63%. The provinces that received the largest overall transfers of the LEDF (in 2003/4) were the Western Cape, the North West and Limpopo.

The provinces, which received the smallest overall, share of the LEDF were the Eastern Cape, the Free State and Gauteng. With reference to the growth (average annual rate) of the allocations per province, the provinces, which experienced the strongest growth, were the Northern Cape (40,0%), Mpumalanga (31,9%) and the Free State (31,5%). The provinces, which recorded the slowest expansion, were the Western Cape (19,9%), Gauteng (20,8%) and Limpopo (22,1%) (Own calculations based on the DPLG LEDF Report, 2003:15).

Atkinson and Ingle (2003: 3) state that the "DPLG claims that 13 000 short-term and long-term jobs have been created " and goes further to emphasize that the figures are "unclear". Efforts to procure more recent indications of the level of employment creation were unsuccessful. According to a communication with Mr. M. Mzezana (2004) the LEDF Evaluation Report is the only source providing statistics on the employment creation effects of the LEDF. **This lack of information is a vital shortcoming hampering the measurement of the LEDF and its impact at the local level** (Atkinson and Ingle, 2003:4 and DPLG, 2003: 13). The next section provides a summary of the findings of the evaluation of the LEDF.

3.6.2.2 EVALUATION OF THE LED FUND

As indicated in the preceding section, the DPLG undertook an evaluation of the LEDF. The DPLG (2003: 3) states that it is difficult to measure the performance of the LEDF due to a lack of clear policy goals, and the attempts of the programme to straddle welfare and business mandates. The DPLG (2003: 13) also states that the situation is further complicated by the fact that business plans and the subsequent monitoring, do not provide enough information to be able to verify the extent to which LEDF projects have achieved the goals outlined in their funding applications.

According to the DPLG (2003:14) the LEDF has **failed both conceptually and practically**. The practical failings of the fund relate to the limited ability of the programme to promote competitive enterprises, job creation and financial independence among its beneficiaries. Financial dependence is a feature of most projects, which is in part caused by a lack of consistency, i.e. not always awarded on economic project-based outcomes, as to how the grant funding is used. In some instances, the funding has been used to provide infrastructure while in other cases, it has been used to purchase materials, equipment and inventory, and in yet others both infrastructure and operating capital have been funded. The guidelines utilised to adjudicate LEDF applications are not clear.

The conceptual failings of LEDF can be attributed to the fact that the existence of LEDF has resulted in the concept of LED becoming synonymous with a grant driven programme and a notion of projects. Accordingly, LED planning has become focused on accessing funds as opposed to the formulation of strategies for project implementation or economic regeneration. Conceptually, the fund has also entrenched the notion of LED as a local government activity, exacerbating the marginalisation of the private sector and civil society.

The general experiences of the LEDF show that whilst the supply of grant funding to aspirant entrepreneurs is relatively straightforward, the ability of these entrepreneurs to become financially independent, create sustainable jobs and to survive the vagaries of market cycles is far more difficult. Other findings of the evaluation are presented in table 3.6.

TABLE 3.6: FINDINGS OF THE LEDF EVALUATION

- The LEDF has realised the entrepreneurial "dreams" of only a select number of beneficiaries
- There is confusion as to who the beneficiaries of LEDF funding are
- A number of projects have realised the whims of local politicians or officials and are anomalous within the context of local opportunities and needs.
- The majority of projects remain financially dependent on grant funding
- The programme has not resulted in systematic capacity building or training programmes either among beneficiaries or among officials.
- Cost effectiveness has not informed the working of the fund
- Very few business plans give any indication of internal rates of return, expected profits, net present value, jobs created per investment and potential risks
- Very few projects included strategies outlining how the project would become independent of local government support
- There are very few examples of LEDF projects being implemented collaboratively by different departments
- No account is taken of the indirect costs associated with personnel time, subsidized access to water and electricity and environmental damage that LEDF projects place on municipalities.
- Local government capacity shortcomings have been exposed by the tendency for municipalities to take up key roles in the formulation and management of LEDF projects.
- Failures to align projects to local resources and local opportunities and to ensure collaboration between programmes reflect the limitations in coordination and integration capacity. Arguably, some blame for the lack of integration can be attributed to the problems that have accompanied the formulation of IDP's.
- Very few municipalities have established the requisite development units to administer LED responsibilities.
- Whilst all LEDF projects are required to be part of an IDP, in some instances inclusion in the IDP appears to have become the definitive motivation for funding a project.
- The lack of objective and stringent project selection criteria has contributed to an environment in which political patronage by councilors has influenced the allocation of LEDF funds in some cases.
- The involvement of the private sector in LEDF tends to be on a contractual basis
- Beneficiary communities appear to have been cast as the passive recipients, as opposed to the agents of projects.
- The locus of control in most LEDF projects lies outside of the beneficiary community - a total contradiction to the widely acknowledged best practice principle that beneficiaries should be integral to the development process.
- The LEDF is intended to be implemented locally and form one of the key instruments by which Local Municipalities become "developmental". Paradoxically, skills, capacity and the prestige attached to the programmes are located within Provincial and National government.
- The level of functional integration between provincial and local government is poor.
- The higher spheres of government have become hurdles to be cleared or circumvented.
- There is a major incompatibility between tasks required of provincial government and the authority, budget and status accorded to them within the programme. The ambiguous identity of provincial government in the implementation of LEDF have contributed to inadequate provincial support for the programme at a local government level

Source DPLG 2003: 13-18

The evaluation revealed confusion as to which sphere of local government should identify projects, submit funding applications, receive and administer funding, manage implementation and take the responsibility for monitoring and reporting. Most critically, provincial and national governments have not contributed to the development of LED as a leading edge principle within municipalities. The LEDF evaluation report provides a detailed evaluation of the status quo but does not continue to propose solutions and recommendations.

The process by which LED has become synonymous with LEDF projects can be attributed to the lack of clear LED principles emanating from national and provincial government. The confusion surrounding what LED does – and does not – involve has impeded the uptake of LED as the organising principle for economic development programmes at the local level (DPLG, 2003: 21). The national imperative to spend budget, and the annual budget cycle exert a strong influence on LEDF projects. In many instances this pressure has translated into expedient implementation with neglect for community participation, sustainability and the undertaking of feasibility assessments.

3.5.2.3 OTHER DEVELOPMENTS IN 2004

In 2004, DPLG adjusted its approach to the funding of the LED activities with relation to some of the other developmental funding programmes. The Municipal Infrastructure Grant (MIG) was implemented on 1 April 2004. According to DPLG (2004: 3) the MIG rationalises nationally managed capital expenditure programmes directed at building municipal-service infrastructure and consolidates the following programmes:

- The Consolidated Municipal Infrastructure Programme (CMIP) (DPLG)
- *The Local Economic Development Fund (DPLG)*
- The Water Services Capital Grant (Department of Water Affairs & Forestry)
- The Extended Community Based Public Works Programme (Department of Public Works)
- The Building for Sports and Recreation Programme (Sport and Recreation SA)
- The Urban Transport Fund (Department of Transport)
- The National Electrification Programme to Local Government (Department of Minerals and Energy)

- The National Electrification Programme to Eskom (Department of Minerals and Energy).

A Special Municipal Infrastructure Grant Innovation Fund (SMIF) has been established to encourage and support innovative projects in municipalities. The SMIF has been established to:

- Actively support innovation in local government (innovation - from the SMIF perspective - is not defined by the DPLG)
- Enable municipalities to implement projects that are linked to, but not currently part of, their Integrated Development Plans.
- Identify cutting edge projects that carry acceptable levels of risk, and which will result in sustainable benefits in the municipal area.
- Encourage municipalities to work more effectively with a wide range of stakeholders, including the private sector (corporate and SMMEs), community based organisations (CBO's), organised labour and other spheres of government.
- Facilitate "lesson learning" and "knowledge sharing" across projects, to enable successful innovations to be replicated and policy and procedures to be informed by outcomes on the ground.
- Promote a culture of pride and confidence in the ability of South Africans, and the public sector in particular, to innovate and create a better life for all South Africans.

The closing date for the first round of applications for the SMIF was the 23rd of August 2004. During a subsequent telephonic discussion with Mr. K. Masithela of the DPLG (2004) it became evident that currently there is no clear indication of how this shift in the LED-funding instrument will influence LED in terms of:

- the value of money available to LED
- how the funds available will be allocated in terms of LED vs. other projects such as infrastructure delivery.

3.7 CONCLUSION

LED has become an established feature of the development scene in South Africa. The delivery of LED, at local government level, is hampered by resource and skills constraints and are compounded by the lack of strategic guidance and facilitation from the other spheres of government. A range of constraints will, for the foreseeable future, prevent the widespread application of the concepts as embodied in the Local Government White Paper. One constraint relates to administrative issues and is aggravated by constraints inherent within most local authorities, namely the near bankruptcy of many local governments, the shortage of skilled staff and the absence of any major organization to offer extension support and advice to local governments moving into the LED field.

In addition, political conflict and the reluctance of elected councilors to cooperate with the private sector and the latter to reciprocate hinder the formation of local partnerships in the form of public-private partnerships (PPP's). This also leads to a situation in which the responsibility for the economic development of the local area is not fully accepted by either partner. From a local government level, the absence of clear guidance and principles from the higher authorities. Linked to conflicting demands are hampering LED efforts. In other words, there are contradictions, conflicts and a lack of common purpose between, and within national and provincial government departments leading to coordination problems.

At the provincial level, key policy documents, such as the Provincial Growth and Development Strategies (PGDS) create a framework for development, which has significant LED ramifications. However, few local level LED projects have become sustainable, with limited permanent employment opportunities being created. In addition, projects seldom seem to involve the private sector.

Provincial government clearly needs to take a key role in the LED process. Given the very real incapacities which exist at the local level, and the need for external direction, guidance, support and facilitation is crucial. A less ambitious approach, in which local government facilitates LED together with the private sector and community partners, might be more realistic within many local government contexts. However, the national

policy has not been prescriptive on the question of the institutions needed to pursue LED. The possible policy implications of the above factors are:

- A reconsideration of the project approach to LED. To have an effective LED approach, the institutionalisation of an LED strategy within the IDP is necessary.
- Specific emphasis should be given to supporting individuals and businesses already in operation, rather than starting projects from scratch.

The following chapter compares the 2002 LED policy (LED Policy: Refocusing Development on the Poor) with the 2004 LED policy. The chapter aims to determine whether the shift in the policy will have an impact on the management approaches with reference to local government.

CHAPTER 4: POLICY COMPARISON & ANALYSIS

4.1 INTRODUCTION

In Chapter 3, the legislative framework within which local economic development (LED) must be undertaken was illustrated. The chapter further indicated that local government in South Africa is facing a number of issues constraining their delivery of the Constitutional LED mandate.

The Department of Provincial and Local Government (DPLG), which is the department responsible for guiding and assisting local government in their delivery activities, is also responsible for the formulation of the LED policy. The purpose of this chapter is to analyse the “2002 LED Policy: Refocusing Development on the Poor”, and the “2004 Policy: Local Economic Development Policy and Strategy” with the specific aim to identify the shift in the policy and to identify any management implications for local government as a result of this shift. Mr. A. Fray (2004), from the DPLG, indicated during a personal discussion that the 2002 Policy was never officially approved by Cabinet but was nevertheless viewed as the official LED Policy paper.

In this chapter a synoptic overview is provided of the 2002 policy and the emerging themes are identified. The 2004 policy will be investigated with similar intentions i.e. identifying emerging trends and consequently, the shift in the policy focus will be identified through a comparison of the key themes of the two policies. Any strategic indications, where applicable, will be spelt out.

4.2 ANALYSIS OF THE 2002 POLICY

The section is structured in a manner that facilitates the provision of the key elements in a synoptic fashion by discussing the main elements. The institutional framework is discussed together with concluding remarks and existing critique of the 2002 policy.

4.2.1 MAIN ELEMENTS

The following discussions replicate selected text (directly) from the policy document with the focus being on providing an overview of the content and not on evaluating the content of the policy as such.

4.2.1.1 VISION & OBJECTIVES

According to this policy (DPLG, 2002: 3), from central governments' perspective, the most important objectives for municipal LED are:

- Job creation
- Sustainable urban and rural development, and
- Explicit pro-poor approaches

The national government policy directives such as the Growth, Employment and Redistribution (GEAR), the Reconstruction and Development Programme (RDP) and the Constitution directly inform this policy. The DPLG 2002 Policy was primarily focused at **meeting the unmet basic needs of the community**, including employment (DPLG, 2002: 2). According to the 2002 policy, the core of LED had to reflect basic social values and priorities and stated that LED should be fully committed to:

- Job creation
- Attacking poverty
- Environmental protection
- Gender equity as fundamental objectives

The **vision and objectives** associated with this LED policy are directly related to the 1994 Reconstruction and Development Programme (RDP). While these objectives are discussed in detail in the LED policy document, it is difficult to distinguish clearly what the policy advocates as the LED vision and objectives, as the policy does not provide a delineation of LED activities that should be undertaken.

The policy document provides a clear discussion of developmental local government (as introduced in section 3.5.2) and also makes an explicit distinction between

developmental and *non-developmental* LED. The latter LED occurs when social objectives are secondary to investment attraction at all costs (DPLG, 2002:9). The following section provides an overview of the core components of the LED policy.

4.2.1.2 CORE COMPONENTS

The core components of the policy relates to specific measures that align directly with the national government's broad objectives (DPLG, 2002: 7) and are categorised into six broad classes, namely:

- Fostering community economic development
- Linking of profitable growth to redistributive development/financing
- Investing in human capital
- Delivering and maintaining infrastructure and services
- Plugging leaks (retaining capital) in the local economy
- Retaining and expanding a municipality's existing businesses

Each component is discussed in the following paragraphs and provides an indication of the focus of each component.

a) FOSTERING COMMUNITY ECONOMIC DEVELOPMENT

The LED policy refers to “fostering community economic development” as municipal assistance, aimed at the grassroots level. The beneficiaries of this core component are (DPLG, 2002:7):

- i. Community businesses and cooperatives
- ii. Local exchange and trading systems (LETS) such as business networks
- iii. “Third sector” development experiments (e.g. people’s housing processes)
- iv. Savings collectives and maintenance schemes
- v. Urban farming projects

The policy emphasises the importance of community-based strategies to work directly with low-income communities and their organisations. Support for institutions such as community trusts and worker- or community-controlled enterprises are thus a key

feature. Municipalities need to create conducive environments (DPLG, 2002:7) for SMMEs to develop and grow by providing:

- Business infrastructure
- Affordable finance
- Opportunities for involvement of SMME in government procurements
- Service subsidies
- Technical support through business advice centres
- Network and support

b) LINKING PROFITABLE GROWTH TO REDISTRIBUTIVE DEVELOPMENT/FINANCING

The second core component is *linking profitable growth to redistributive development and financing*. Examples of such a link as envisaged by the policy (DPLG, 2002:7) are:

- The construction linkage (also known as “planning gain”), whereby planning or zoning permission in profitable geographical areas, is linked to a commitment to invest in impoverished neighbourhoods
- A progressive approach is a requirement that businesses opening a branch in a wealthy area must also do so in a low-income neighbourhood, and must also invest a certain proportion of their turnover in local small businesses.
- Large firms should be encouraged to break up major subcontracting opportunities - to bring small-scale entrepreneurs into their networks. However, “labour-only subcontracting” relationships are discouraged due to growing evidence of exploitation.

c) INVESTING IN HUMAN CAPITAL

The DPLG (2002:7) states that the third component forming part of the LED policy relates to investing in human capital, mainly in the form of:

- Education
- Skills-development
- Public health

The policy explains the rationale for the investment in human capital accordingly:

“...A well-paid, healthy and well-educated workforce will be more productive...”

Explicit interventions, according to the LED policy, are aimed at the development of human capital and can include general and customised education, vocational training, basic or advanced skills development and targeted placement. The policy states that in order to increase productivity in the local economy, skills development and training requirements should be directly linked to LED (DPLG, 2002:8).

d) DELIVERING AND MAINTAINING INFRASTRUCTURE AND SERVICES

Delivering and maintaining infrastructure and services is, according to the policy (DPLG, 2002:8), a constitutional responsibility. The provision of these services needs to be done in a manner that establishes “developmental LED”. The DPLG (2002: 8) stresses that developmental LED will only be achieved through maximising the economic linkages i.e. the provision of reliable, cost-effective municipal services. The focus is therefore placed on:

- New capital investment in infrastructure
- Efficient infrastructure maintenance
- Municipal provision of social amenities and facilities
- Effective housing and settlements policy.

Municipalities need to design and select service delivery mechanisms that most effectively and rapidly extend municipal services to “un-serviced” or “under-serviced” residents and communities e.g. the Thembisile municipal area in the former KwaMhlanga region. The selected mechanism must result in visible and fast-tracked economic returns, including job creation through:

- i. Increased construction/maintenance of infrastructure
- ii. Establishment of new SMME's which require access to services
- iii. Higher workforce productivity
- iv. Translating basic service provision into redistributive opportunities.

e) PLUGGING LEAKS (RETAINING CAPITAL) IN THE LOCAL ECONOMY

The policy acknowledges that the retention of capital in the locality needs to be facilitated (DPLG, 2002:8) through employing resources that are located in close proximity. The outflow of money should also be limited from poor areas by:

- Encouraging local purchases
- Constructing market areas i.e. developing market infrastructure where trade can take place
- Through funding special events and festivals
- Through providing infrastructure using local labour and locally-manufactured material
- Promoting employee training, and
- Networking enterprises of all sizes in local area.

f) RETAINING AND EXPANDING A MUNICIPALITY'S EXISTING BUSINESSES

With reference to the local businesses, the local municipalities have to give attention to *retaining and expanding the existing businesses*. The objectives related to this core component relate typically to:

- Assisting local businesses to improve their productivity
- Increase market share
- Move to higher levels of local beneficiation (value adding) in the production chain.

The six core components or focus areas, according to the LED policy, needs to be focused at specific targets which must to be addressed by a range of instruments. The targets and instruments are explored in the following section.

4.2.1.3 INSTRUMENTS & TARGETS

According to the DPLG (2002:18) the targets, whether beneficiaries, constituents or strategic sectors, of the instruments vary and those instruments with a specific pro-poor focus should be employed. The policy identifies the following targets:

- **Community-based targets** are focused at key constituencies who have not had their needs met by past economic practices and service delivery systems. This target is the main focus of government in the 2002 LED policy context (DPLG, 2002:18).
- **Entrepreneurial targets** focus on different kinds of start-up and established enterprises, where low-income people have the most to gain. Examples include SMME development generally, non-profit community development corporations, and micro entrepreneurs who provide specific services needed in the community.
- **Business targets:** Specific support to businesses should address both the flow and maintenance of business activity in a given area, particularly where this benefits low-income people (workers and consumers).
- **Quality management targets:** These relate to the municipal certification of economic development outputs so as to protect consumers, redistribute income and ensure responsible environmental production practices.

Apart from the preceding targets, the overall target of LED activities, according to the policy, must be **focused at the poor** (DPLG, 2002: 20). The poor are defined by the policy as:

- Low-income people
- People living in rural areas of newly-demarcated municipalities
- Women and children
- The elderly
- People with disabilities
- People who are living with HIV/Aids, and
- The environment.

The DPLG, through the LED policy, identified three categories of “appropriate” LED instruments, which should be focused at the targets as listed in the preceding paragraphs. These instruments and targets form the basis on which municipal strategies should be assessed and validated. The LED instruments promoted by the policy entail (DPLG, 2002:17):

- **Capacity improvement instruments:** These are aimed at streamlining the development process, building the regulatory capacities of the municipality to stimulate and direct development. Capacity improvements instruments include infrastructure improvements, land acquisition, tax increment financing, land clearance, leasing of land to developers, land consolidation, and one stop centres, procurement assistance and employee training and retraining. The most important instrument in South African circumstances would be the relationship between infrastructure capacity and LED.
- **Market expansion instrument:** Expanding the local market linked to social peace (redistribution and social justice) makes a locality more attractive to investors and assists local firms to upgrade. The foundations on which the market expansion instrument is based are illustrated as follows: "...free lifeline services is one vehicle to expand local markets, as it facilitates backward-forward linkages...due to the increase in disposable income" (DPLG, 2002:18).
- **Cost reduction instruments** are used to encourage investment by reducing the cost of households, developers and businesses through public subsidies. The policy does however indicate that there are "limitations as to what can be offered to the private sector" through a reduction of ordinary municipal service costs due to financial and legislative (e.g. the Public Finance Municipal Act) constraints.

The targets and instruments focus primarily on people and communities and less on business development and support. The following section provides an overview of the institutional framework proposed by the 2002 LED policy.

4.2.2 INSTITUTIONAL FRAMEWORK

As indicated in section 3.5.1, the legislative framework provides for three spheres of government. The policy (DPLG, 2002:2) states "it is essential for all spheres of government to cooperate to establish a job-creating economic growth path, embark upon sustainable rural development and urban renewal, and bring the poor and the disadvantaged to the centre of development". An overview of each sphere's role and position in the framework, as delineated in the policy, is portrayed in the following sections. However, as the focus of this paper is on the local government level, limited attention is focused on the national and provincial spheres.

4.2.2.1 NATIONAL GOVERNMENT

The institutional framework, with reference to the national sphere of government, distinguishes between the DPLG and other national government departments. The DPLG's role and position is discussed afore the focus is placed on other national government departments.

a) THE DEPARTMENT OF PROVINCIAL & LOCAL GOVERNMENT (DPLG)

The 2002 LED Policy states that the DPLG (the national department responsible for the local government administration) must facilitate the establishment and maintenance of an efficient system of inter-governmental LED relations (DPLG, 2002:35). Additionally, the DPLG should play a coordinating role in provincial and local government matters. The specific actions that need to be undertaken according to the DPLG (2002: 42) are:

- Provide the overall strategic and legislative framework for LED
- Maintain strong inter-governmental relationships using and strengthening existing inter-governmental institutions
- Obtain support for commitment towards LED
- Develop the necessary regulatory mechanisms for LED
- Monitor the implementation of LED policy and the impact of LED nationally
- Seek to provide the necessary budgetary resources for LED, and
- Disburse information to provincial and local government levels about LED and LED support.

Further, the DPLG is the primary government funder for LED (through the LED Fund introduced in section 3.5.2). With reference to the disbursement of the LED fund, the vision adopted by the DPLG is aligned with the objectives of national government and guided by the RDP, Local Government White Paper, the Constitution and GEAR and is *entitlement-based grants for people-centred development* (DPLG, 2002:35). The fund aims at the "vulnerable sectors" such as: rural residents, women and children, the elderly, disabled people, people who are living with HIV/AIDS, and the environment.

b) OTHER GOVERNMENT DEPARTMENTS

The programmes of the various different national government departments **tend to offer local authorities different benefits**. The Equitable Share (see Annexure D), Consolidated Municipal Infrastructure Programme Grant (CMIP), and the Housing and Social Fund programmes offer direct financial assistance to local authorities. Other programmes offer technical skills, while others primarily provide indirect benefits to local governments such as increased economic activity and down-stream increases in rates income. **While this differentiation might seem obvious, the implications are not as directly visible**. All the programmes assume that local authorities will want to receive these benefits. The DPLG (2002: 42) states that local authorities, on the other hand, might value direct financial assistance more than indirect economic changes, and are therefore likely to be selective as to which programmes they access.

4.2.2.2 PROVINCIAL GOVERNMENT

The policy does not indicate specifically which provincial department should drive LED but does provide the following guidelines regarding the actions the provincial government should undertake and be committed to, namely (DPLG, 2002: 42):

- Align and coordinate LED initiatives according to national and provincial priorities
- Strengthen and support the capacity of local government
- Make available financial and technical resources to implement LED
- Share information, and
- monitor and evaluate the impact of LED activities provincially.

4.2.2.3 LOCAL GOVERNMENT

At a local government level, distinction is made between the policy indications for district and local municipalities. The policy (DPLG, 2002: 42) states that (but does not motivate why), within the system of inter-governmental LED management, district municipalities are best positioned to deliver LED through:

- Planning and coordinating LED strategies within the framework of the District IDP
- Establishing LED capacity within the District to foster cooperation, coordination, structures, policies and projects

- Identifying lead sectors that can kick-start development by undertaking local economic regeneration studies
- Collecting and disseminating LED information and data
- Identifying, accessing and allocating LED resources, in consultation with municipalities
- Maintaining strong relationships with other spheres of government, and
- Providing capacity building for local governments where appropriate.

With reference to the local municipalities, differentiation is made between direct and indirect roles. However the policy states (DPLG, 2002: 43) that the main challenge for local government is “to draw more support, including resources, from provincial and national departments by appealing to the interlinked nature of LED”. The direct roles include:

- Infrastructure investment and cross-subsidisation of services to low-income households in ways that ensure developmental LED opportunities
- Local policy formulation and leadership of integrated economic development and spatial planning including, for example, the formulation of Integrated Development Plans and Land Development Objectives, procurement policy and indigent policies
- Collation and interpretation of economic intelligence, i.e. conducting research, and maintenance of databases and city indices measuring for example business confidence or vacancy rates
- Coordinating government’s economic development and related programmes
- Provision of business infrastructure in previously disadvantaged areas
- Support to small, medium and micro-enterprises (SMME) including the facilitation of funding and training.

The indirect local government roles include (DPLG, 2002: 42):

- Creation of an enabling environment, including rendering better services
- Improvement of operational efficiency, for example quicker processing of regulatory applications
- Facilitation of sustainable community projects

- Attraction and facilitation of development funding for the locality
- Dissemination of information on LED, in conjunction with other spheres of government, civil society organizations and the private sector.
- Provide and implement a pro-poor LED strategy
- Coordinate LED activities locally within the municipality and with other local stakeholders
- Building capacity for LED
- Source information and funding for LED
- Mobilize civil society to participate in LED and encourage public-participation
- Establish linkages between sectors, firms and groups and promote clustering
- Undertake LED Regeneration studies as part of the municipal LED, and
- implement sector development initiatives.

The policy recognised the capacity constraints at a local level and proposed that the establishment of special-purpose LED units should be created. With reference to the LED unit, direct links should be developed between the municipal office devoted to IDP coordination and the unit. The unit should be staffed with appropriately skilled personnel and sufficient fiscal, administrative and logistical resources should be allocated to the unit. The policy indicates (DPLG, 2002: 43) that the objectives of such a (LED) unit must include:

- i. To coordinate the implementation of municipal activities in a manner that maximises economic development
- ii. To manage the implementation of an LED strategy within the IDP
- iii. To manage and monitor LED projects
- iv. To coordinate the municipality's activities with those of other stakeholders
- v. To coordinate municipal LED activities with those of other government spheres
- vi. To manage the municipal LED budget
- vii. To establish and maintain a municipal LED database which should be integrated into the IDP database.

The LED unit should be located at the close to the office of the municipal manager and must fulfil a highly strategic role, influencing policy in support of pro-poor LED. In terms

of the structure, LED unit must, be small and flexible. The unit should act mainly as advocate and facilitator. The unit will require constant support by the Municipality in order to be effective, due to its small relative leverage (such as budgetary power) over line departments. This is especially important at District-level LED initiatives, where the municipal manager should facilitate overall LED delivery and coordination.

4.2.3 CONCLUDING REMARKS

The 2002 LED policy offered a number of arguments in favour of pro-poor LED interventions. The policy states that the weaknesses of the municipalities should be overcome with explicitly pro-poor strategies. The policy places the establishment of strategies for job creation, sustainable rural and urban development, and the central place of poor and vulnerable people as the focus of LED. The pro-poor LED strategies must align with political commitment to the LED process. A total of eight key principles underscore the overall policy, namely:

- Promoting good governance
- Ensuring sensible forms of redistribution
- Achieving complementarity between large and small projects
- Establishing linkages to government's macro-economic and broader development strategies
- Complying with the Municipal Systems Act and other legislation and regulation
- Strengthening the inter-governmental relations system
- Establishing a lead sector in local development
- Maintaining a rural focus where appropriate.

Poverty eradication is viewed as the highest priority and programmes that target poverty eradication need to be based on the notion that the poor require some form of "safety net". A second outcome of pro-poor LED programmes is the creation of long-term, meaningful employment. Job creation programmes typically entail labour-intensive public works projects, which provide temporary employment as well as meeting the basic needs of the poor. The challenge remains for a local LED programme to build upon the momentum from such schemes.

Promoting good governance is one of the most crucial aspects of LED, so that the poor and vulnerable members of society have voice, access and the advocacy capacity to make their ambitions known. This often will entail financing support, which will be increasingly available to those pro-poor LED strategies that comply with national objectives.

4.2.4 EXISTING CRITIQUE

Local government in South Africa is constrained by a number of institutional and financial constraints not only in terms of LED delivery but also with reference to the entire spectrum of municipal service delivery. The power devolution to local government and the passing of the initiative to the local level (decentralisation as discussed in the section 3.5.2.3) is appropriate in the international context, as this sphere of government is suitably located to timeously identify and address local needs. According to Nel (2001: 1011), the pre-2002 policy frameworks in the form of the Local Government Transformation Act (LGTA) *de facto* implied that LED is a local government prerogative and had important ramifications at local level. However, the 2002 LED policy attracted critique relating to a variety of factors. The main critique leveled against the 2002 LED policy is summarised in the following paragraphs:

- i. The policy does not provide for the endorsement of unilateral private sector, non-government organisations (NGO's) or community-based LED, but rather makes provision for them to be mere partners within local government programmes. (Nel and Binns, 2001: 360)
- ii. Nel and McQuaid (2000: 8) envisages that the policy could lead to leadership conflict between legally empowered, but resource-poor, local authorities and other agencies already active in development
- iii. The policy is not sensitive and supportive of non-local government LED.
- iv. The policy does not take the financial position of local government into consideration and it expects local government to solve the country's problems (Mukhopadhyay, 2000: 9).
- v. The issue of capacity constraints and the absence of LED facilitation support from national and provincial governments to advise, and guide local initiatives, is also a shortcoming of the policy (Rogerson, 2002: 15).

- vi. The policy encouraged local government investment in poor areas in the form of housing and municipal infrastructure and it was here that LED initiatives were first intended to focus. Following a burst during the construction phase, economic activity however rapidly declined to relatively low levels (Hindson, 2003: 2)
- vii. Meyer-Stamer (2002: 6) states that the policy contributes to misunderstanding of LED *vis-à-vis* community development
- viii. The policy strives to bring together employment policy, urban development policy, rural development policy, social policy, family policy and health policy. The document also includes economic policy in this collection. In other words, the policy contributes to the confusion of what LED entails (Meyer-Stamer, 2002: 6)

Despite the existing critique, LED is still viewed as one of the main developmental tasks of local government. The DPLG has acknowledged the shortcomings of the 2002 policy and has embarked on formulating and re-aligning the LED policy. In an interview with Mr. A. Fray (2004), it was indicated that the 2004 LED Policy directly attempts to address the shortcomings of the 2002 LED policy.

Additionally the impact of the LED policy was on the understanding of LED *vis-à-vis* community development. However, May (2004: 8) states that the incidence and severity of income poverty continued to increase in the post-apartheid period. May (2004: 8) states ascribes this to the persistence of multiple market failures that prejudice the chances of the poor to make use of the assets that they do have, or to accumulate additional assets. Borat and Poswell examine the impact of trade and technology on employment dynamics in South Africa. Borat and Poswell (2002:51) indicated that the recent economic growth has resulted in weak employment growth among highly skilled workers, while unskilled workers and those in poor households have carried the adjustment costs of greater openness. The next section presents and discusses the 2004 LED policy.

4.3 THE 2004 LED POLICY

The 2004 LED policy is an indication of government's commitment to implementing the outcomes of the Growth and Development Summit (7th June 2003) and is in line with the precepts of GEAR, Micro Economic Reform Strategy and the RDP. The **purpose** of the policy according to the DPLG (2004: 2) is *"to establish a common understanding and approach to LED so that all partners (government, business, labour and community) are*

able to mutually reinforce each other's efforts in establishing and/or growing "resilient and vibrant" local economies" and to "enable continuing dialogue between all partners in the local arena and to focus the dialogue on improving local economies, based on the context and needs of different municipal areas".

A concern, however, is that it is not clear whether the 2004 LED policy strives to address and correct the shortcomings of the 2002 policy. The emphasis of the following section is to present an overview of the key components of the 2004 LED policy.

4.3.1 MAIN ELEMENTS

The main elements of the policy are discussed in this section through presenting the LED vision and goal as well as the core components of the 2004 LED policy.

4.3.1.1 POLICY VISION & GOAL

One of the key purposes of the new policy is to provide a common understanding of LED in South Africa. This vision re-alignment addresses a key shortcoming of the 2002 LED (as identified in section 4.2.1.1) where it was not clear what the vision for LED is. The vision for LED according to the new LED policy is (DPLG, 2004: 7) *"...to establish and build resilient and vibrant local economies..."* which are *"strong, inclusive and sustainable"*. Furthermore, the local economies will *"...support the growth and development of local employment, income and assets"* and *"will capitalise on opportunities"*. The LED policy document continues to state that the local economies will be *"ever-changing and adapt to new circumstances, consumer preferences and styles and product innovations"*.

The 2004 LED policy acknowledged the active involvement and participation of residents in municipal affairs as a *"hallmark"* of the local economies. In addition to the above, the DPLG (2004: 7-9) presents the **vision** of the 2004 LED policy regarding the role-players and their characteristics as follows:

- **The people** are the biggest resource for local economic development
 - Resourceful, skilled and able to take full advantage of economic opportunities.

- Innovative and able to participate in and establish, run and grow thriving enterprises.
- They produce locally made and branded products for the domestic and international market
- They develop solutions and products that are affordable and meet the needs of poorer communities. .
- **Their leaders** inspire confidence in the local economy and are able to mobilize resources for the advantage of local communities. The leaders are:
 - Able to design, manage and implement economic development strategies that are participatory, realistic, feasible, viable and creative,
 - Innovative and visionary
 - Working together with government and development agencies to position their local economies in the global context.
- **The workforces** of these economies:
 - Are capacitated, appropriately skilled and appropriately remunerated.
 - Provide a competitive edge for the businesses and industries
 - Attract new businesses and industries.
 - Provide a constant and reliable flow of skills
- **The assets (natural, physical, financial, human and social capital)** of these local economies:
 - Are harnessed for the benefit of local economic development.
 - Serve as a lever for attracting and securing greater private sector investment and finances
 - Are used to maximise locational advantages and importance.
- **The physical infrastructure, public amenities and facilities and public services** are:
 - Reliable, easily accessible, efficient, and enable effective economic transactions.
- **The natural environment, public spaces, settlements and buildings:**
 - Are attractive, appealing and desirable
 - Inspire confidence in the local economy

The local economies are **networked** (interpreted as “integrated”) into local, provincial, national and global economic dynamics and opportunities. Further, the local economies are linked up with **external support initiatives, projects and programmes**. They have reliable, fast and easy access to information and people and enterprises take full advantage of the business development incentives, finances and support offered by government and other development agencies in different economic sectors.

The creation of **functioning partnerships** at different levels and between different parties must enhance the ability of local role players to take full advantage of economic opportunities. **The income** earned by local residents is spent in the local area, thus enhancing the financial viability of the local municipalities. The various elements of the LED vision as advocated by the DPLG are in line with the legislative framework discussed in section 3.4 and it is within this context that the 2004 policy regards the creation of partnerships with key local stakeholders, as a key element in the process of development. The **2004 LED policy goals** are defined in terms of poverty relief and development goals for South Africa as formulated at the Growth and Development Summit (7th June 2003), namely:

- *By 2014 the improved resilience and vibrancy of local economies (at district, local municipal and community and ward level) will be responsible for:*
 - *halving unemployment and poverty levels in South Africa, and*
 - *strengthening the national economy.*
- *By 2030 South Africa should truly be one nation with one integrated economy. The majority of South Africans will participate actively in economic activity and enter into a virtuous circle of prosperity. Social investment breaks the legacy of poverty, makes people marketable for jobs, and increases the revenue base of the country so that greater levels of social investment is possible.*

The goal can be interpreted as focusing on:

- Local level economies and employing these localities as a lever to improve their resilience and vibrancy in order to halve unemployment and poverty
- Integrating the economy

- Improving the employability of individuals
- Improving the tax base of the country (the business base).

The vision and goals of the new policy provides clear guidelines on the re-aligned focus of LED in South Africa. The following section presents and discusses the core components of the 2004 LED policy.

4.3.1.2 CORE COMPONENTS

The 2004 LED policy identifies a number of specific activities that need to be undertaken at a local level to drive LED with the intention to support national government priorities such as:

- Broad Based Black Economic Empowerment (BBBEE)
- The community-development dimensions of the RDP and GEAR

The 2004 policy identifies a number of key activities that need to be undertaken at a local level to implement LED. The components as identified by the DPLG (2004: 11-16) are:

- Marketing for investment promotion
- Support services for small businesses
- Assistance to targeted growth sectors
- Tailoring of training and labour placement to local labour market conditions
- Capacitating and transformation of local governance structures.

The following discussion is based on the core components as listed above and presents extracts from the 2004 LED Policy regarding the role of local government while the topics and elements associated with the national and provincial spheres of government, are omitted.

a) MARKETING FOR INVESTMENT PROMOTION

The marketing for investment promotion component of the new policy alludes to ensuring that the municipal area must be as economically attractive and efficient as

possible through providing high quality services to both the population and businesses (existing and potential). The policy states (DPLG, 2004: 11) that the municipalities should make the service delivery focus at “...*the centre of their planning and activities...*”

The policy stresses that creating an environment for LED is not only about infrastructure but is influenced by the local intangible locational factors¹ and collective effort guided by a common vision focused on the development of the local competitive advantage. The (unique) local competitive advantage, such as local resources, is regarded as the most marketable commodity. The policy prescribes that the marketing of the areas should be from the point of view that the locality is:

- an attractive investment destination, and
- a location whose products are associated with excellence and quality.

b) SUPPORT SERVICES FOR SMALL BUSINESS

Small business development is a central part of national government's economic development strategy and is contained in the Local Government White Paper, National Government Budget Programmes and the National Strategy for the Development and Promotion of Small Business in South Africa. These strategies were formalised through the National Small Business Act. Additionally, a vast number of support institutions were established at a national level to drive the small business development programme in South Africa such as:

- Ntsika (Technical and financial assistance)
- Khula (Technical and financial assistance such as the Khula Credit Guarantee Scheme)
- Local Business Service Centres (LBSCs)
- Tender Advice Centres (TACs), and

¹ Intangible factors are "soft" factors and not easily quantifiable. They become increasingly important to the extent that tangible factors become increasingly similar across many locations. Intangible factors include, local and regional economic climate, image of site location, and image of city / region. Climate and image of a place are closely related to the overall economic performance and the behavior of government vis-à-vis business.

- The Department of Trade and Industry's (DTI) Manufacturing Advice Centres (Namac's).

The LED policy states (DPLG, 2004: 12) that these supply-side mechanisms need to be strengthened through improved **inter-relationships** with the communities. In other words, the communication between the local delivery mechanisms of these services and communities need to be improved in order to contribute to addressing the challenges faced by the informal economy.

Furthermore, **networking** between entrepreneurs and partnership groups needs to be encouraged, as this contributes to the stimulation and innovative thinking and information dissemination of production, marketing, work organisation and technology techniques and methodologies. The DPLG indicates (2004: 12) that the facilitation of these interactions is a role of local municipalities. **Lack of access to finance** is a major constraint to the growth and development of small businesses and producer groups at the local level. Local government should assist the small business sector to access financial assistance from parastatals and development finance institutions (DFIs) such as the DBSA, the IDC and Khula.

The key problem to resolve is access to finance. However, a double market should not be created, and the businesses created and supported must be assisted in becoming financially and technically viable as soon as possible. Municipalities should assist the small business sector to develop the required technical assistance through integrating business development and financial services.

c) ASSISTANCE TO TARGETED GROWTH SECTORS

Linked to the small business support component is the provision of assistance to targeted growth sectors. The local level IDP's need to be dynamically integrated and aligned with the Provincial Growth and Development Strategies (PGDS) and national government strategies (DPLG, 2004: 13). The assistance to targeted growth sectors, as stimulated by the 2004 LED policy, implies that the local municipalities need to play an important role in identifying relevant sectors and attracting and developing clusters (cluster development is discussed in Annexure E) in their localities. The primary impact

of this component will be on the formal economy but local interventions need to be designed to facilitate indirect impact on the informal economy through aspects such as sub-contracting and the associated small business support programmes.

d) TAILORING OF TRAINING AND LABOUR PLACEMENT TO LOCAL LABOUR MARKET CONDITIONS

The development of the local skills base is regarded by the LED policy as crucial to the success of any LED programme, while also addressing skills shortages in the second economy. National government, through the Department of Labour (DoL), is implementing a comprehensive skills training programme in South Africa, both through the labour centres and the Sector Education and Training Authorities (SETA's). The role of local government according to the 2004 LED policy (DPLG, 2004: 14) is to actively identify the skills needed and link it with the skills development activities of the various government and private sector institutions active in the area as well as the in country.

e) CAPACITATING AND TRANSFORMATION OF LOCAL GOVERNMENT

Local government has a key role to play in the development of the local economy, as indicated in the preceding sections. The 2004 LED policy stresses (DPLG, 2004: 15) the important role of local government in the creation and development of the enabling environment. The policy delineates the individual and institutional capacity is required within local government structures, which need to be strengthened in order to deliver LED effectively. The role of the local municipality in this regard relates to (DPLG, 2004: 15):

- i. Recruiting appropriately skilled individuals into the municipality to drive the adoption and proliferation of good LED practices in all areas
- ii. The strengthened of delivery of LED in the municipal structures to occupy a primary position in the planning processes at local level
- iii. Developing dynamic systems for stimulating the participation of previously disadvantaged communities and individuals, in the identification and implementation of economic activities
- iv. Setting up of LED support offices in all provincial governments, district municipalities and metropolitan areas (as delineated in Annexure C), staffed by qualified

personnel. This should be extended where possible to local municipalities, where councillors and officials should be trained in LED-related issues. These offices and the officials concerned should report directly to the municipal managers, and should carry out their duties in a close working relationship with the local stakeholder groups, partnerships and for a (plural of forum), whose establishment and servicing is one of their key tasks

- v. The Local Government & Water Sector Education and Training Authority (LG&WSETA) programmes must be consolidated and extended as widely as possible, using the National Policy Framework as their point of reference
- vi. The universities and tertiary education sector (though their institutes of government, development, planning and administration, and other faculties dealing with local developmental issues such as geography and economics), should provide courses and modules on LED, linking themselves to national and global networks to become part of centres of excellence, information and strategic formation.

The following section provides an overview of the institutional framework provided in the new LED policy.

4.3.2 INSTITUTIONAL FRAMEWORK

The 2004 LED policy proposes an institutional framework that spans over all three spheres of government and provides guidelines for each sphere related specifically to the deployment of the support and implementation activities. The role of each sphere is outlined in the subsequent paragraphs with the emphasis on local government's role.

4.3.2.1 NATIONAL SPHERE

A number of national government departments, parastatals, international donors and other institutions have policies and programmes that directly and indirectly impact on LED. The DPLG (2004: 16) states that the services and resources need to be co-ordinated in an improved fashion to ensure that the services and resources provided by the institutions are utilised in a manner that will maximise the collective impact. The policy emphasises (DPLG, 2004: 32) that a coordinating and facilitating body needs to be created to oversee and encourage this process in a non-prescriptive and creative way.

Additionally, the national body will need to constantly review the legislation and regulations that have a direct or indirect impact on LED and the growth and survival of small enterprises. The policy document acknowledged that there are elements present in old and newer legislation and administrative regulations that put **an unreasonable burden** on emerging and/or small businesses, which should be reviewed and amended such as legislative restrictions and tax burdens.

A monitoring and evaluation system on the successes and failures of this and other contributions to a national LED policy must be established and be operational as a key component of the work of the national LED facilitation unit (DPLG, 2004: 32). This national unit must review the implementation of new and existing local economic development programmes, and make provision for the implementation of a reporting structure from projects at local government, to provincial- and national government levels.

4.3.2.2 PROVINCIAL GOVERNMENT SPHERE

Planning and support for local economic development on the part of the provincial administrations, is a crucial role. At present this is carried out in an uncoordinated manner by diverse provincial government departments and parastatals. For example, it is not **uncommon for projects to arrive from the province at municipal level with little or no consultation, and with no relation to the priorities drawn up in the IDP. Therefore end-of-the-financial-year “project dumping” is not uncommon** (DPLG, 2004: 33).

The Local Government White Paper (Department of Constitutional Development, 1998: 39) states “provincial government should ensure that municipal IDP’s combine to form a viable development framework across the province. Additionally, the IDP’s should be vertically integrated with the PGDS”. The IDP’s and PGDS need to reflect the sensitivity and involvement by the provincial departments in the strengthening and attainment of the local IDP’s. Therefore, the sectoral plans of provincial departments and parastatals have to be attached to the municipalities, as expressed in their IDP’s. If the elaboration of either one or the other is weak, inadequate steps are normally taken to rectify the situation and to ensure that good and effective local government planning and information inform provincial planning. Similar experiences are relevant relating to

the delivery of services to the people, and nowhere is it more true than in the area of the local economy. Therefore, the provincial departments need to align their planning processes in a manner that ensures that the weaknesses at a local level are addressed.

4.3.2.3 LOCAL GOVERNMENT

The role of local government, according to the new LED policy in terms of the institutional framework, provides guidelines for both the Category B and C (local and district) municipalities. **The district municipalities** must take the lead in creating and supporting the development of the local economy, and must acquire capacity, vision and instruments to succeed. The district municipalities must create well-structured LED support, information and monitoring bodies of a permanent nature. With reference to the LED components of IDP's, the district municipalities need to strengthen this component, through a participatory process with all stakeholders from the public and private (including NGO's and community) sectors, as well as the provincial government departments and parastatals, in planning for and dealing with LED.

The district municipalities should furthermore facilitate the formation of partnership groups between public and private stakeholders and producer groups should be encouraged. In some cases implementation bodies, such as LED development agencies may be established if supported by local government. At a **local municipal level**, LED fora (plural of forum) should be established to ensure participation in the planning processes together with (DPLG, 2004: 33) the following aspects:

- Appoint local officers to be in charge of the outreach to the community
- Stimulate the local population to take part in the identification and exploitation of the opportunities.
- Trust and collaboration has to be encourage between all stakeholders
- Effective partnerships, which enjoy the support and attention of the municipality, have to be encouraged.

4.3.3 CONCLUDING REMARKS

The focus of this policy is on what government, with all its organs and agencies can do to support ordinary South Africans operating in local level partnerships to engage in economic activity. The policy (DPLG, 2004: 33) delineates governments' role to assist

and to create the conditions for local entrepreneurs and businesses to emerge and grow. The national policy for LED presents a re-aligned LED vision. It is envisaged that this vision will enable a shared understanding of LED amongst all stakeholders and engender a common approach to developing local economies. The policy also encourages local communities to develop their own shared vision for the socio-economic development of their territory, which they can realise through their own individual and collective endeavours, through partnerships and through the work of their elected municipalities.

4.4 POLICY COMPARISON

The aim of this section is to identify the main areas where the policy shift has occurred between the 2002 and 2004 LED policies. In order to achieve this aim, the main elements are compared with each other through the use of figures which illustrates the relative position of the two policies with regards to the main elements as discussed in the preceding sections. The areas where the policy shift has occurred from a local government management perspective are highlighted.

4.4.1 VISION, CORE COMPONENTS & TARGETS

The vision, core components and targets of the two policy documents are compared with each other through the use of figure 4.1.

The most significant shift in the policy during the re-formulation has been in the vision. Firstly, the new policy provides a clearer indication of where the LED initiatives need to focus. As indicated in section 4.2.1, the old policy did not present a clear vision with reference to where the LED actions of local municipalities needed to be aimed. The new policy underscores a dramatic re-alignment of this focus i.e. away from the “basic unmet needs of communities” to the “viability of the local economy”.

Through this re-alignment, the emphasis has shifted away from the universal aims and objectives of national government as stipulated in the RDP and GEAR, to a more narrowed economic focus.

FIGURE 4.1: COMPARISON – VISION, CORE COMPONENTS & TARGETS

	Old LED policy	New LED policy
Vision	Job creation Attacking poverty Environmental protection Gender equity Meeting un-met basic needs of the community	To establish and build resilient and vibrant local economies in South Africa. These resilient and vibrant local economies will show strength, inclusivity and sustainability. They will support the growth and development of local employment, income and assets whether in the face of constraints and external competition and capitalise on opportunities.
Core components	Community economic development Linking profitable growth to redistributive development Investing in human capital Delivering/maintaining infrastructure "Plugging the leaks" Retaining & expanding local businesses	Marketing for investment promotion Support services for small businesses Assistance to targeted growth sectors Tailoring Of Training And Labour Placement To Local Labour Market Conditions Capacitating & Transformation
Targets	Community-based targets Entrepreneurial targets Business targets Quality management targets Overall target (the poor) Low income people Rural areas Women & Children Elderly Disabled people People living with HIV/Aids The environment	The localities The local economy The skills levels of the local individuals The local business base

Source: Compiled from: DPLG, 2002: 7-22; and DPLG 2004: 7-20.

This narrowed focus will assist in redressing the confusion surrounding LED. Secondly, the revised vision eliminates elements such as environmental protection from a LED perspective while concentrating on the local economy.

With reference to the core components, a marked shift has taken place with the emphasis shifting from general community focal points (community development, redistribution and infrastructure) to economic stimulation through investment promotion, SMME development and stimulating targeted growth sectors. However, the 2004 policy maintains the improvement in the local human capital development component from the 2002 policy. The two core components, which have been totally omitted from the new policy, are:

- i. Plugging the leaks in the local economy – retaining local capital in the economy
- ii. Retaining and expanding the existing local businesses – ensuring the local economy does not contract.

The transformation and capacitation of the local government and delivery mechanisms being introduced in the 2004 LED Policy are new and are not contained in the old Policy. With reference to the targets of LED initiatives as advocated by the 2004 LED Policy, a similar shift is evident as identified in the vision. However, the targets of the 2004 LED Policy are less explicit than those of the 2002 Policy.

The shift relates to a divergence from the *pro-poor* targets of the old policy to overall targets of the entire local economy, including the skills base, the locality and the local business base. The locality refers to the total spatial area of the municipality (municipal area of jurisdiction) while the local business base relates to the economic entities within the spatial area. Therefore, the attention focused at the local businesses through the 2002 policy (retaining and expanding the existing businesses) has become a target of activities rather than a core component of the policy.

Apparent shifts have taken place with regards to the two policies in terms of the core components and the targets of interventions. The re-alignments that have taken place regarding the institutional framework, within which the three spheres of government interact to deliver LED, are identified in the next section.

4.4.2 INSTITUTIONAL FRAMEWORK

The institutional frameworks of the two policies are compared with each other in order to identify and highlight the movements, which have taken place regarding the specific activities that must be undertaken by the respective spheres. Table 4.1 employs the indicators from the 2002 policy as benchmarks to identify the main shifts which have occurred. The focus of subsequent discussions is on the shift relating to the local government sphere.

TABLE 4.1: IMPLEMENTATION INDICATORS		
LEVEL	INDICATOR	CONTAINED IN NEW POLICY
NATIONAL	Provide strategic legislative framework for LED	✓
	Maintain inter-governmental relationships	✓
	Obtain support & commitment for LED	
	Develop regulatory mechanisms	✓
	Monitor implementation and impact	✓
	Provide budgetary resources	✓

TABLE 4.1: IMPLEMENTATION INDICATORS			
LEVEL	INDICATOR	CONTAINED IN NEW POLICY	
	Disburse LED information to provincial and local levels	✓	
PROVINCIAL	Align and coordinate LED initiatives	✓	
	Strengthen and support local government	✓	
	Provide financial and technical resources	✓	
	Share information	✓	
	Monitor and evaluate LED impact provincially	✓	
LOCAL (DISTRICT)	Plan and coordinate LED strategies	✓	
	Establish LED capacity within the District	✓	
	Identify lead sectors		
	Collect and disseminate LED information and data		
	Identify, access and allocate LED resources, in consultation with municipalities		
	Maintain a strong relationship with other spheres of government	✓	
	Provide capacity building for local governments		
LOCAL (MUNICIPAL)	Direct	Infrastructure investment and cross-subsidisation of services to low-income households in ways that ensure developmental LED opportunities	
		Local policy formulation and leadership of integrated economic development and spatial planning	
		Collation and interpretation of economic intelligence	
		Coordinating government's economic development and related programmes	
		Provision of business infrastructure in previously disadvantaged areas	
		Support to SMME including the facilitation of funding and training.	✓
	Indirect	Creation of an enabling environment, including rendering better services	
		Improvement of operational efficiency	
		Facilitation of sustainable community projects	
		Attraction and facilitation of development funding	
		Dissemination of information on LED	
		Provide and implement a pro-poor LED strategy	
		Coordinate LED activities locally within the municipality and with other local stakeholders	
		Building capacity for LED	✓
		Source information and funding for LED	
		Mobilize civil society to participate in LED through public-participation	✓
		Establish linkages between sectors, firms and groups and promote clustering	
		Undertake LED studies as part of the municipal LED	✓
		Implement sector requirements for LED	

The table indicates that the institutional framework remained relatively stable with reference to the provincial and national spheres of government. Conversely, the requirements from a local level perspective have undergone significant changes implying additional management implications. The following section presents a

delineation of the latest requirements for the different levels with specific emphasis on the local government level.

4.4.2.1 NATIONAL & PROVINCIAL SPHERES

The 2004 policy stipulates that a "National LED Facilitation Unit" needs to be established with the following tasks (note that the issues which are similar to those listed in the 2004 policy are omitted from the following list):

- i. Improving integrated economic planning across government
- ii. Coordinate access to funding and finance for LED initiatives
- iii. Improving the performance of local government with respect to all aspects of local economic development
- iv. Assisting local government in identifying and capitalising on local competitive advantages for territorial economic and social development
- v. Improving access to investment finance necessary to capitalise on local competitive advantages for economic development
- vi. Ensuring the participation of previously disadvantaged communities/individuals in the realisation of the opportunities offered by LED
- vii. Encouraging the formation of partnerships between key stakeholders at different spatial scales

With reference to the provincial sphere, the 2004 Policy indicates that on this level of government "planning and support for local economic development on the part of the provincial administrations is crucial" (DPLG, 2004: 33). The various government departments active in LED-related projects should be coordinated and better project implementation timeframes should be established to avoid the current practice of project dumping at the end of financial years.

The policy aligns with the Local Government White Paper (1998: 39), which states *"provincial government should ensure that municipal IDP's combine to form a viable development framework across the province, and are vertically integrated with the Provincial Growth and Development Strategy"*. Further, the sectoral plans of provincial departments and parastatals need to be aligned with the needs as experienced at a local level and expressed in the IDP's. However, the provincial government level need

to ensure that the quality of the local planning initiatives i.e. the IDP's are of such nature that it is appropriate to inform the provincial planning activities, especially with reference to LED.

4.4.2.2 LOCAL SPHERE

A broad range of activities have been identified that need to be undertaken by the local municipality and are delineated in the new policy. Some of the activities can be categorised into the core components of the policy as discussed in the preceding section. Table 4.2 provides an indication of the activities associated with each core component.

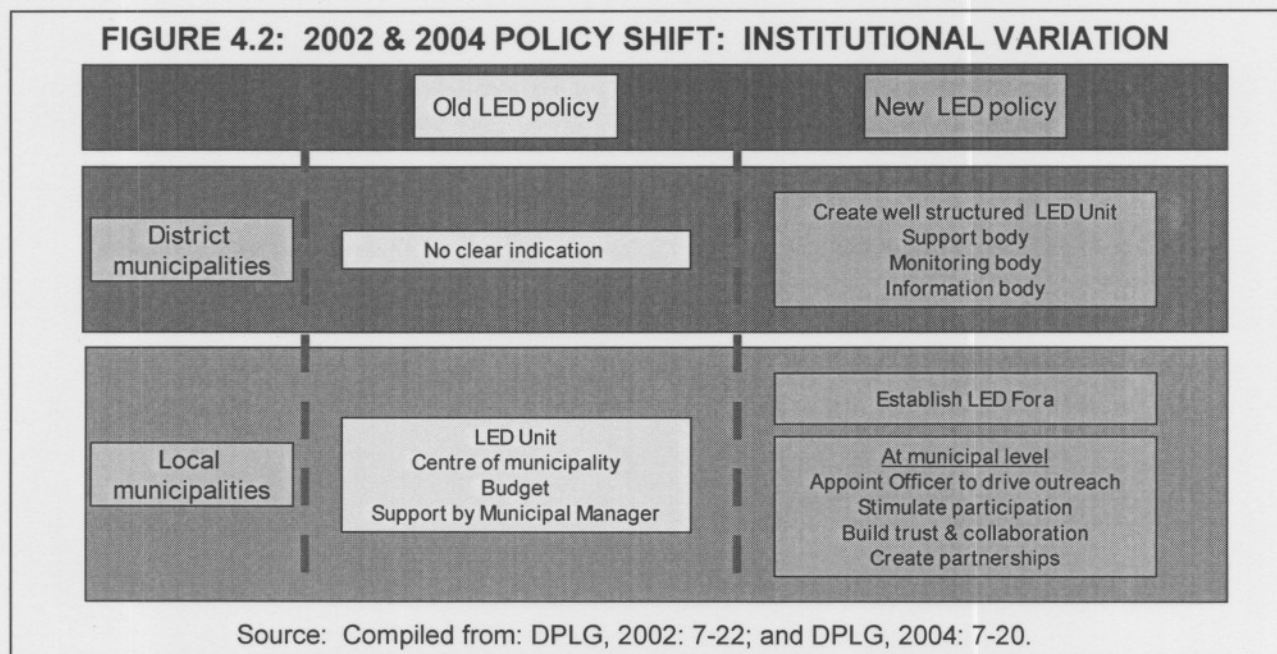
TABLE 4.2: CATEGORISATION OF ACTIVITIES VIS-À-VIS THE CORE COMPONENTS	
CORE COMPONENT	LOCAL MUNICIPALITY ACTIVITIES
Marketing for investment attraction	To market the area and to provide marketing assistance and support to businesses from the area and to attract inward investment.
Support for SMME	SMME development
Assistance to target sectors	To identify and support business clusters and business opportunities together with sectoral stakeholders
Tailoring of training & labour placement	Development of human capital (skills development focused on the needs of the local economy) in collaboration with DOL
	Development of social capital
Transformation & capacitation	No specific activities are listed in the policy document
Source: Compiled from DPLG, 2004: 10-30.	

A number of activities cannot clearly be associated with the core components of the 2004 LED Policy, but are directly linked to the core components of the 2002 LED Policy and include:

- Community economic development
- Plugging the leaks in the local economy (retaining income in the local economy);
- To promote local business expansion and retention strategies.

The 2004 LED advocates a significant shift in the actions that need to be undertaken by the local government sphere, with limited redirection being advocated for the national and provincial spheres of government. Figure 4.2 illustrates the shift that occurred at the local sphere with reference to the institutional framework.

The figure (see figure 4.2) provides a clear indication of the shift that has taken place with reference to the promoted institutional framework at a local level. At a district level clearer indications are provided regarding the specific institutional arrangements that should be followed i.e. creating a well-structured LED unit together with an information office, support office and a monitoring office. At a local level, the LED Unit should be maintained with emphasis being placed on establishing LED fora, which incorporates the stimulation of partnership creation by way of stimulating participation and the building of trust and collaboration.



The shifts identified in the preceding paragraphs have direct management implications for local government, with reference to the management of LED (which will be discussed in Chapter 5).

4.5 CONCLUSION

The focus of the new policy is radically different from the traditional service-orientated focus of local authorities. With reference to LED, a number of changes have to be made by local government to successfully implement and institutionalize the LED policy. The management implications are interrelated. Addressing the different implications on an ad hoc manner will not result in a comprehensive re-alignment of the municipal LED activities. Through addressing of the primary implications, most notably repositioning LED as a municipal priority and resolving the staffing issues, some of the secondary

implications can be ameliorated. A key concern is that LED is linked to the performance of the domestic economy, which runs in cycles.

The following chapter investigates the LED situation in practice, through presenting the results of the research of the LED units of the Sedibeng District Municipality as well as the 3 local municipalities in Sedibeng. However, before the Sedibeng situation is discussed, the management implications are identified, discussed and ranked.

CHAPTER 5: MANAGEMENT IMPLICATIONS FOR THE SEDIBENG DISTRICT

5.1 INTRODUCTION

The shift in the Local Economic Development (LED) Policy will have a variety of implications for local government with reference to the manner in which the LED activities are managed. The aim of this chapter is to identify and rank the management implications. Empirical research was utilised to identify and rank the management implications. Additionally, empirical research was also employed to investigate the management implications which the shift in the LED policy had on the municipalities in Sedibeng. Questionnaires were distributed to the LED staff of the LED units throughout the area and subsequent to the return of the questionnaires, the Statistical Consultation Services of the North West University analysed the data.

The aim of this chapter is to utilise the identified management implications as a point of departure for investigating the implications of the shift in the LED policy on the Sedibeng District Municipality, together with the three local municipalities in the area. The chapter therefore, presents the management implications and an overview of the salient features of each municipality in terms of the institutional arrangements relating to LED. The discussion is followed by a presentation of the outcomes of the empirical research that has been conducted in the area. The outcomes of the empirical research is compared with the outcomes of the interviews (first part of the chapter) and finally, the critical observations are highlighted.

5.2 MANAGEMENT IMPLICATIONS

The management implications are discussed in the following section. A number of non-government role-players have been involved in the identification of these implications.

The shift in the policy implies direct management implications for the local government sphere throughout South Africa. In order to identify and rank the implications, a number of interviews (refer to the bibliography) were conducted with LED practitioners, both in person and telephonically. The interviews were utilised to rank the identified management implications. A limited number (10) interviews were conducted as the aim of these interviews were to gain insight into the perceived importance of the implications from practitioners who are active in the LED field but are independent of government (i.e. the interviewees were selected from the non-government sector). Table 5.1 provides an indication of the interviewees and the organisations they are involved in.

TABLE 5.1: INTERVIEWEES	
Individual	Type of organisation
S. Cunningham	Non-government organisation
Dr. J. Meyer-Stamer	Non-government organisation
Dr. J. L. Oberholzer	Private sector
D. Hindson	Private sector
Dr. D. A. Atkinson	Non-government organisation
G. J. Pienaar	Private sector
B. J. van der Merwe	Private sector
G. Trah	Non-government organisation
C. Mitchell	Private sector

An unstructured interview technique was employed to identify the management implications subsequent to which the implications were summarised and presented to the same interviewees for ranking. The management implications are firstly described and subsequently the implications are ranked according to their perceived importance.

5.2.1 THE IDENTIFIED IMPLICATIONS

The management implications were identified through informal interviews with the various interviewees. The top-10 management implications were identified and verified

with the various interviewees. In other words, the implications were identified in the first round of interviews, subsequently consolidated and reviewed during a second round of interviews. Each identified management implication is described in the following sections.

5.2.1.1 HUMAN RESOURCE CAPACITY

The first implication that was identified in the majority of the interviews was the level of staffing of especially the LED departments that has to be expanded to deal with the delivery of LED. Due to the relatively new mandate of local government i.e. the delivery of LED, very few municipalities are adequately staffed to plan, implement, monitor and evaluate, their activities to facilitate LED. This issue, as delineated during the discussions, relates only to the number of staff available and active in the LED field.

5.2.1.2 TECHNICAL SKILLS

The second issue that was identified is related to the preceding issue but the underlying concern that was identified is that the (perceived) availability of appropriately skilled personnel in the municipalities is lacking. These skills relate specifically to the technical skills (such as basic budgeting skills and skills related to report writing) associated with the delivery of LED. This implies that the local municipality needs to recruit and retain appropriately skilled personnel while building capacity within the existing LED personnel. This issue has direct implications for the management and development of the human resources within the local municipality.

5.2.1.3 LED AS MUNICIPAL PRIORITY

An overall and general indication was that, while LED is contained in the majority of the municipal IDP's, it does not appear to be an implementation priority area for the local government as evident from the small proportional budgetary allocations to LED. There is further consensus that the various LED planning documents such as the LED Sector Plans and the LED dimension in the IDP's are undertaken purely to comply with the legislative requirements as discussed in the preceding chapter. Due to the supposed status of LED in the overall organisation, specific actions need to be undertaken to reposition LED as a critical function of the municipalities.

5.2.1.4 OWN IMPLEMENTATION BUDGET

The internal budget processes of the municipalities are of such nature that due to the status of LED in the local municipalities, a relatively small component of the total budget is allocated to LED. The old policy directly stated that a dedicated budget should be allocated for the implementation of LED projects. LED departments do not have a dedicated LED budget that can be accessed, for the implementation of projects and planning activities should be funded from the municipal budget.

5.2.1.5 UNDERSTANDING OF LED

The fifth issue that was identified relates to the technical skills shortage as discussed in section 5.2.1.2. The confusion between LED and community development (as introduced in the previous chapter) is hampering LED planning and delivery and implies that municipalities should separate the institutional arrangements focusing on these two related, but distinct, concepts during implementation.

5.2.1.6 PRACTICAL LED STRATEGIES

The current IDP's and LED dimensions of municipalities tend to be limited to their relevance regarding the LED components. Local municipalities are constrained in their delivery of LED due to poor planning – municipalities regard their IDP's as the primary document guiding project implementation and the associated budget processes. Municipalities should therefore ensure that the IDP's contain strategies and action plans, which address the LED Policy's core components (refer to section 4.3.1.2) as a minimum requirement.

5.2.1.7 INCREASED FLEXIBILITY

Mr. Pienaar (2004) as well as Mr. S. Cunningham (2004) indicated that, from their experience, LED officials are constrained by the long decision-making processes and the limited autonomy of the LED departments. Based on the new policy, municipalities should undertake activities to interact with the business community. This implies that the officials should be provided with a clear mandate, and appropriate authority to make decisions in a flexible manner that will support the creation of an enabling environment.

5.2.1.8 ALTERNATIVE RESOURCES

The availability of financial resources for the implementation of projects is further limited as a result of the limited awareness of the vast alternative financial resources available for project implementation. Additionally, municipalities are inclined to view project implementation as it's sole mandate and do not view the attraction of private sector capital as an alternative, non-municipal source of funding. The implication of this is that the municipalities need to create a database of substitute sources of financial and other resources that can be employed during project planning and implementation.

5.2.1.9 IDP PLANNING

As indicated in section 5.2.1.6, municipalities view the IDP as the "highest authority" document. The capability of the majority of municipalities to compile comprehensive IDP's are limited and this weakness is compounded through the implementation of poorly focused strategies contained in the IDP's. Local government should therefore embark on a process of seeking outside assistance during the IDP formulation process. A critical defect in the process associated with the employment of consultants in the formulation of the IDP's is that while the quality of the IDP's might be higher, the complexity of actions incorporated in the IDP is also increased thereby further decreasing the ability of local government to implement the IDP's. Municipalities should therefore prioritise the projects (flowing from the IDP) in a manner that takes into consideration their capacity to implement.

This is one of the key paradoxes facing local municipalities. Problems associated with project prioritisation, and the potential for "project picking", are concerns underlying project funding. This supports the argument for the use of objective project prioritisation models using criteria such as "strategic importance" and "catalytic effect". However, the projects selected by such selection criteria often result in the selection of the most intricate and difficult projects in terms of implementation. Therefore a "cost-benefit-complexity analysis" should inform project prioritisation.

5.2.1.10 LED VISION

Some of the interviewees (Mr. S. Cunningham, and Mr. B.J. van der Merwe) indicated that, in their experience, the local municipalities do not have a strategic vision relating specifically to the local economy. While municipal visions tend to incorporate some element of employment creation, it does not provide adequate strategic direction for the LED activities *per se*. Municipalities should therefore embark on a strategic planning session in order to determine specifically the strategic direction for LED, which will guide the officials in their LED delivery activities.

5.2.2 RANKING

As indicated in the introduction of this section, all the interviewees were asked to rank the identified implications. The interviewees were asked to rank each implication on a scale from 1 to 10 in terms of how important they perceive the implication as having an implication for the management of LED from a local government level. **A score of 1 implies that they do not view the implication as very important while a score of 10 indicates that the respondent felt that the management implication is critically important.** The mean is utilised as an indicator of the total ranking of the various interviewees. Additionally the coefficient of variance (COV) instead of the standard deviation is utilised as a measure of variability. The COV is a measure of the comparative relative variability rather than a measure of the absolute variability. Table 5.2 presents the ranked implications together with additional statistical information relating to the responses. From the table, it is evident that the first four implications are viewed as critically important by most of the respondents. These area:

- 1) LED as a municipal priority
- 2) Technical skills
- 2) Understanding of LED
- 3) Human resource capacity

TABLE 5.2: MANAGEMENT IMPLICATIONS

IMPLICATION (RANKED)	MINIMUM	MAXIMUM	MEAN	MEDIAN	STANDARD DEVIATION	COEFFICIENT OF VARIANCE
1) LED as Municipal priority	8	10	9.0	9.0	0.5	5.2
2) Technical skills	8	10	8.9	9.0	0.6	6.4
3) Understanding of LED	8	10	8.9	9.0	0.6	6.4
4) Human resource capacity	8	10	8.8	9.0	0.8	9.0
5) Own budget	6	10	8.2	8.0	1.1	13.8
6) Practical LED Strategies	6	9	7.6	7.5	1.0	12.7
7) Increased flexibility	5	10	7.2	7.0	1.6	22.5
8) Additional financial resources	5	8	6.9	7.0	1.1	15.9
9) IDP planning	5	8	6.8	7.0	1.0	15.2
10) LED Vision	2	10	6.2	6.5	2.9	46.7

Source: Calculations based on interviews, 2004.

The most important implication as ranked by the interviewees is that LED must be made a municipal priority with a mean of 9.0 being recorded. The “technical skills” and “understanding of LED” elements recorded the same mean (8.9), while the development and need for additional human resource capacity scored a mean of 8.8. These implications were identified by all the interviewees as the most important with the standard deviations of these implications ranging between 0.5 and 0.8. Additionally, the coefficient of variance of these implications all being less than 10 implying that the degree of variance within the first four implications is limited i.e. the respondents agreed that these implications are critically important.

The remaining implications decrease in their importance i.e. the mean decreases. Furthermore the standard deviation and the coefficient of variance (refer to table 5.2) increase, implying that the respondents had a less homogeneous view of the importance of the remaining implications. The “LED Vision” implication recorded the highest coefficient of variance (46.7) i.e. the interviewees showed a high degree of divergent views regarding the importance of this implication on LED and the policy.

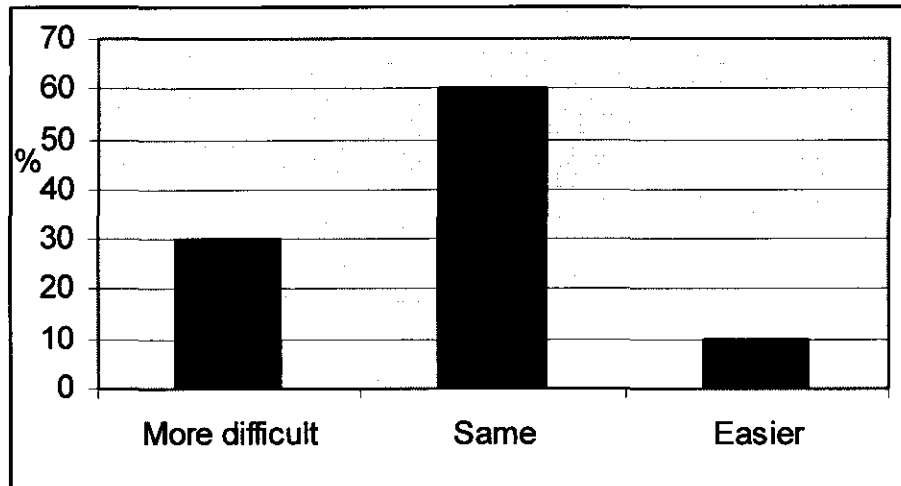
Based on the outcomes of the interviews, the identified implications can be categorized into primary and secondary implications. Primary implications are the most important and relate to the implications at municipal level:

- Re-aligning the organisation to view LED as a priority
- Ensuring that the staff active in the LED activities are appropriately capacitated and have the necessary technical skills
- The clarification of the activities required to deliver LED – in other words the conceptualisation and internalisation of what LED is, what it is not and how to drive the process.
- Strengthening the LED departments to actively implement LED with reference to ensuring that the LED units are appropriately and adequately staffed.

The secondary implications relate to the support activities with reference to the execution of LED:

- A dedicated budget should be provided to the LED units in order for this department to undertake strategic planning and strategy implementation. In other words a move away from the current *ad hoc planning and implementation funding*
- Improving the quality of LED strategies to be more practical
- A mandate should be given to the LED unit to implement projects (within the mandate) in a more autonomous manner – the LED units should operate in a quasi-independent manner
- Awareness should be create in local government regarding the alternative sources of funding and support services for LED projects
- The IDP's need to be improved with specific reference to the LED dimensions
- Local government needs to formulate and disseminate a vision for LED.

Apart from identifying and ranking the management implications of the new LED policy, discussions were facilitated with the interviewees relating to whether the new policy will result in improved LED delivery at a local level. Respondents were asked whether the new policy will “make it easier or more difficult” to delivery LED. The results are presented in figure 5.1.

FIGURE 5.1: IMPACT ON LED DELIVERY

Source: Own calculations based on interviews, 2004.

From figure 4.3 it can be derived that the majority (60%) of the respondents indicated that they do not believe that the new policy will make LED delivery neither more demanding nor less demanding. Thirty percent (30%) of the interviewees indicated that they expect the delivery of LED will be made more difficult by the new policy, due to the more difficult nature of economic development versus community and infrastructure development.

The remaining 10% of the respondents indicated that the new policy would make LED in the local government context easier due to the clarification of LED by the policy. This rationale was however also the main reason cited by the respondents who indicated that they believe the LED policy will make LED delivery more difficult.

5.3 LED SITUATION IN PRACTICE

The preceding section (5.2) provided an initial overview of the management implications as perceived by the non-government development practitioners. The purpose of the following section is to integrate the outcomes of section 5.2 with a practical example of LED. The Sedibeng District is employed as a case study. The subsequent sections provide an overview of the salient features of the Sedibeng District Municipality as well as the three local municipalities in the area. Next the outcomes of the empirical research is presented and discussed.

5.3.1 SALIENT FEATURES

As indicated in section 1.6, the Sedibeng district consists of 3 local municipalities and one district municipality. The municipal entities are:

- Sedibeng District Municipality (SDM)
- Emfuleni Local Municipality (ELM)
- Lesedi Local Municipality (LLM)
- Midvaal Local Municipality (MLM).

The salient features of the three LED departments are discussed in the following section with the aim to identify the LED implementation capacity of the various institutions. Therefore specific reference is made to the location of the LED in the institutional structure, together with the skills profile of the officials who are active in the municipal LED activities.

5.3.1.1 LOCATION OF LED IN THE MUNICIPAL STRUCTURES

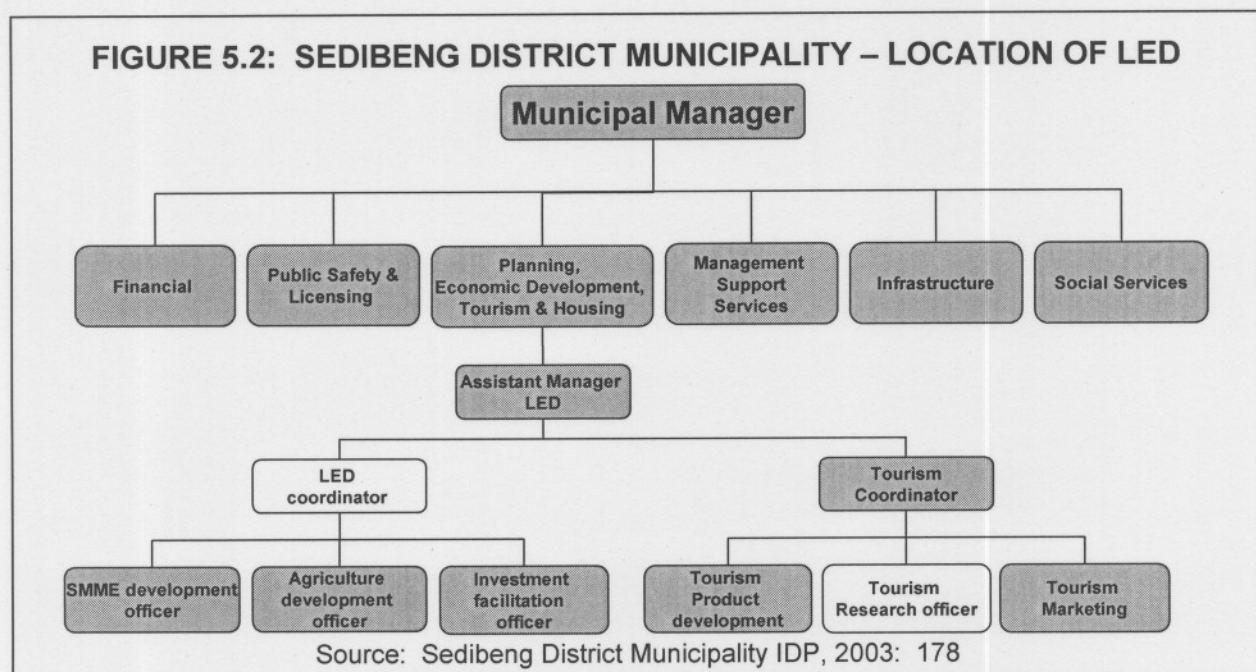
The location of the various LED departments together with the structure of the various LED departments is presented in the following figures. Note that the administrative personnel are not included in the figures and that the positions vacant are not shaded. A brief description is provided to illustrate the vertical communication channels within the local municipalities excluding the external communication.

NOTE: IN ALL CASES, THE MUNICIPAL MANAGER REPORTS TO THE MUNICIPAL COUNCIL WHICH IS LOCATED ABOVE THE MUNICIPAL STRUCTURES.

Reference is made to Table 1.1 and Figure 1.2 that indicates the seat and location of the various municipalities.

5.3.1.1 SEDIBENG DISTRICT MUNICIPALITY

The LED department is located in the Planning, Economic Development and Tourism and Housing Cluster. Figure 5.2 presents the location and organisational structure within the municipality



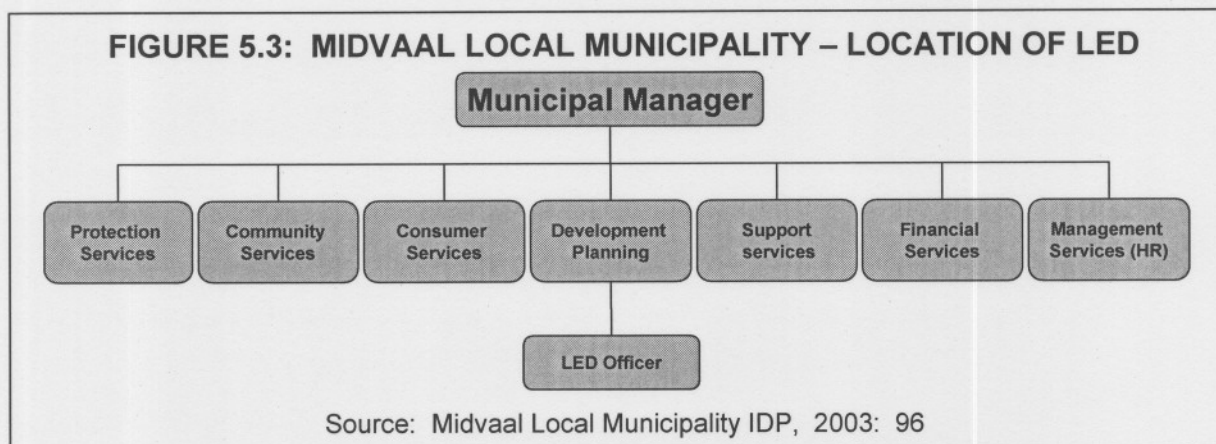
A total of three personnel are employed in the LED department. In terms of institutional arrangements, the LED activities and tourism development activities are divided into two sub-departments. The position of LED Coordinator is vacant, as is the Tourism Research Officer position. Due to the fact that the tourism activities are related to, and have an influence on the local economy, the personnel from the tourism activities are included in the survey process. The staff of the LED department report to the Assistant Manager: Economic Development and Tourism who in turn reports to the Executive Manager: Planning, Economic Development, Tourism and Environment Cluster. The Executive Manager reports to the Municipal Manager. The Municipal Manager reports to the Executive Mayor and the District Council.

The proposals and recommendations from the LED unit are referred to the Executive Manager: Planning, Economic Development, Tourism and Environment Cluster, who approve and refer matters to the LED Section 80 Committee (the section 80 committee is a combination of portfolio councillors and municipal officials of the various local

municipalities) . This Committee makes recommendations to the Mayoral Committee, which then refers the matter, through the Executive Mayor, to the Sedibeng District Council for ratification.

5.3.1.2 MIDVAAL LOCAL MUNICIPALITY

The Midvaal Local Municipality's LED activities are performed from the Development Planning Department. Figure 5.3 indicates the structure of the LED unit.



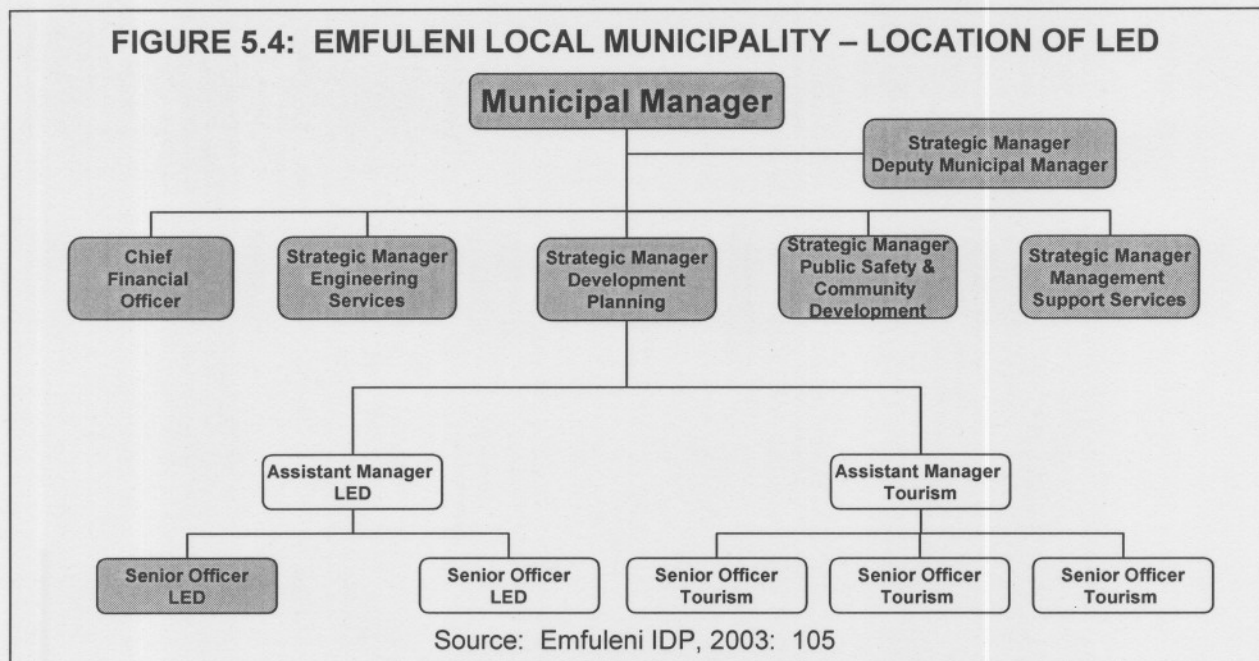
The Midvaal Local Municipality has only one person dealing with LED activities, who is in turn managed by the Development and Planning Manager. The Development and Planning Manager reports to the Municipal Manager who reports to the Mayor. With reference to the political decision-making process, the following interactions are followed:

1. Proposals and recommendations from the LED Section, via the Development and Planning Manager, are referred to the Municipal Manager for approval
2. The Municipal Manager (If the proposal is approved) refers the proposals and recommendations through the Mayor, to the Midvaal Local Council.

5.3.1.3 EMFULENI LOCAL MUNICIPALITY

The Emfuleni Local Municipality's LED department is situated in the Development Planning Department and is headed by the Strategic Manager of the Development

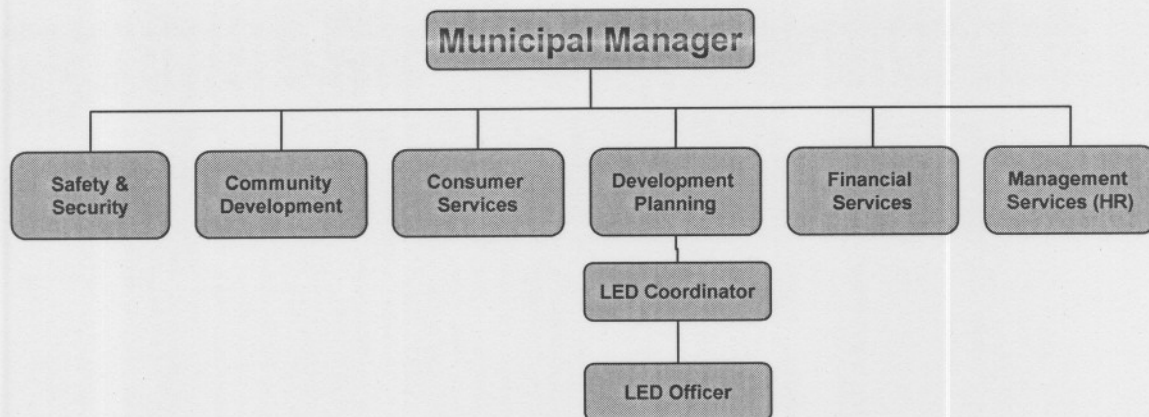
Planning Department. Figure 5.4 illustrates the relative location of the LED unit in relation to the main departments of the municipality.



A similar relationship exists between the LED unit and the tourism unit. There is currently only one person active in the LED department and a total of 6 positions are vacant in the tourism and LED units. The staff of the LED report to the Local Economic Development and Tourism Manager who reports to the Strategic Manager: Local Economic Development, Tourism and Planning Environment Cluster who in turn report to Municipal Manager. The Municipal Manager reports to the Executive Manager as the head of the Emfuleni Local Council. Approval for recommendations and proposal follow a similar process as the Sedibeng District Municipalities and also incorporate a Section 80 committee.

5.3.1.4 LESEDI LOCAL MUNICIPALITY

The Lesedi Local Municipality has its seat in Heidelberg and is spatially the furthest from the other urban areas throughout Sedibeng. The LED department is also situated in the Development Planning Department. Figure 5.5 illustrates the location of the LED unit in relation to the main departments of the municipality.

FIGURE 5.5: LESEDI LOCAL MUNICIPALITY – LOCATION OF THE LED

Source: Lesedi Local Municipality IDP, 2003: 95.

The LED Unit reports to the LED Coordinator who reports to the Manager: Town Planning and Economic Development. The Manager reports to the Executive Manager: Development and Planning. The Executive Manager: Development and Planning reports to the Municipal Manager. The same procedure as the Sedibeng District Municipality and Emfuleni Local Municipality is followed relating to the political decision-making and interfaces. The next section presents an overview of the skills profile of the LED personnel throughout the Sedibeng region.

5.3.2 LED SKILLS PROFILE

As indicated in section 3.2.3, LED is a process that is associated with economic development. Additionally, section 4.5.3 indicates that LED is more difficult than community and infrastructure development. The Local Government and Water Sector Education and Training Authority (LG&WSETA, 2003: 1) indicates that governance is another aspect of economic development and views governance as the capacity of institutions to manage and administer policy, processes and programmes that represent the broad interests of all individuals and groups involved while at the same time complying with ethical and legislative requirements.

Local government officials are, however, not well equipped to deal with this function in terms of knowledge and understanding of what LED means nor do they have the skills required to implement LED policy and procedures (LG&WSETA, 2003: 2). A wide

range of LED manuals and LED training programmes have been developed. These manuals and training programmes, however only provide a basic knowledge of LED. Therefore, the manuals and training programmes, unfortunately, do not adequately equip local government officials with the knowledge, insights and skills required to provide this service to local communities. The Local Economic Development Qualifications Framework (LEDQF) was employed to present the implementation capacity of the various local authorities - Annexure F presents a summary of the framework. Table 5.3 summarises the qualifications of the LED officials. The qualification levels have been obtained from the empirical research and classified as relevant if the following types of qualifications were indicated:

- Economic development disciplines
- Town- and regional planning
- Geography with subjects in economics

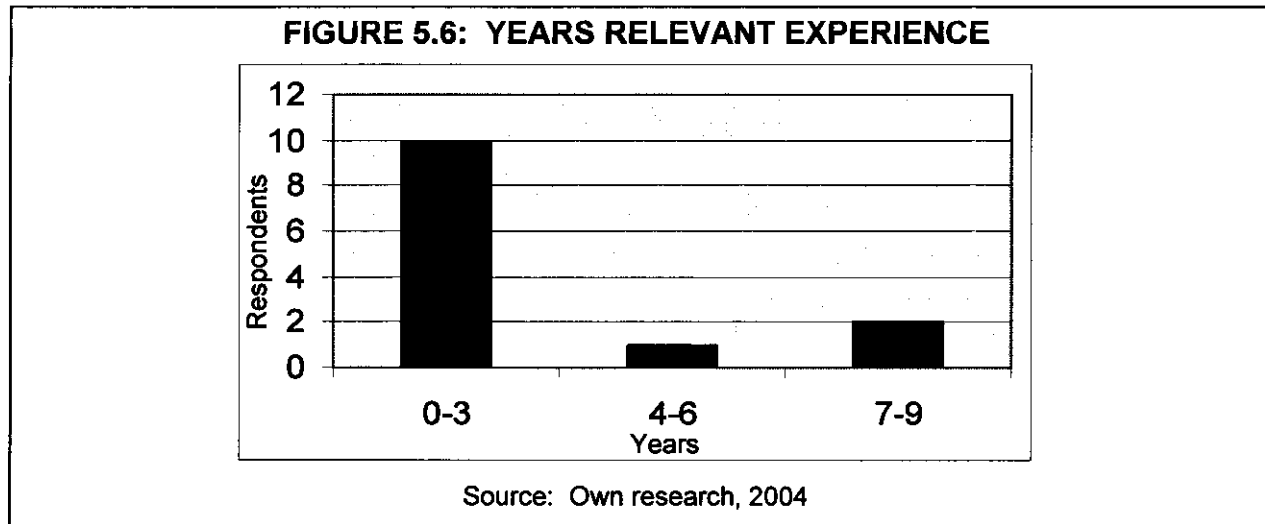
TABLE 5.3: SKILLS PROFILE

Municipality	Personnel	Highest qualification	Relevant qualification
Sedibeng District Municipality	1	Masters degree	Yes
	2	Honours	No
	3	Degree	No
	4	Diploma	No
	5	Diploma	No
	6	Degree	Yes
	7	Degree	No
Emfuleni Local Municipality	1	Degree	Yes
	2	Diploma	No
Lesedi Local Municipality	1	Diploma	Yes
	2	Degree	No
Midvaal Local Municipality	1	No response	-
	2	Diploma	No

Source: Own research, 2004

It is evident that the majority (54.5%) of the personnel being employed by the different local municipalities have a diploma as highest qualification with only 27.3% of employees having a degree. Eighteen (18%) percent of the respondents indicated that they have a post-graduate qualification. In terms of the relevance of the qualifications, only 33% of the respondents have relevant qualifications as measured against the

LEDQF. With reference to the number of years experience in the LED field, figure 5.6 illustrates the distribution of relevant experience in terms of years.



Approximately 77% of the respondents indicated that they have between 0-3 years relevant LED experience with only 7.8% of respondents having between 4-6 years LED experience. Two respondents (15.4%) have between 7-9 years LED experience. With reference to the number of years experience and the LEDQF, 77% of the current staff throughout the area meet the minimum requirements to enter the LED officer learnership programme.

From the preceding, it is therefore argued that the capacity of the municipal officers to undertake LED is not appropriately developed. Due to the small sample of the survey, it is not appropriate to comment on the capacity (i.e. qualifications) of the different local municipalities.

5.3.3 BUDGET ALLOCATIONS

The proportion of municipal funds available to the LED departments for the deployment of LED projects is investigated in this sub-section. However, only the Sedibeng District Municipality's budget could be obtained and therefore only this municipality's approach towards LED, in terms of resource allocation, is discussed. The emphasis of the discussion relates to the budget allocations for the LED activities. Where applicable, the cost component of the LED unit is compared with the total cost component of the municipality to act as a comparison. Only the economic development department is included in the following investigation and not the entire Planning, Economic

Development, Tourism and Housing Cluster. According to information supplied by the Sedibeng District Municipality (2004), the following budget allocations are envisaged for the 2004/5 year:

- The employee cost of the LED department is budgeted at R 1 714 000 for the 2004/5 financial year. This translates into 2% of the municipal staff budget being allocated to the LED unit
- A total of R1 million has been committed to LED projects for the 2004/5 financial year from a total budget allocation of R43,1 million and R2 million of a potential R 65,4 million for the 2005/6 financial year. The budget allocations are very small if it is considered that the recently completed LED plan for the Sedibeng District cost R750 000. The total budget required to implement all the recommendations of the LED plan is approximately R14 million with the prioritised projects alone amounting to R3,3 million in 2004/5 and R4,3 million in 2005/6.

Apart from the preceding, the LED department has not been awarded any funding for project investigations (such as feasibility or viability studies and business plans).

5.3.4 KEY ISSUES

Afore the empirical research is presented, the following key issues are highlighted with reference to the salient features as discussed in the preceding sections.

- The LED units are inappropriately staffed with reference to skills base and the number of years experience in the LED field
 - This implies that the human resource identification and selection process is flawed or not being followed.
- The decision-making process is long with five decision points implying:
 - The numerous decision points are resulting in extended lead times and a slow decision-making process (i.e. reduced flexibility)
 - Project level decisions are being made “far” from the project.
 - Strategic decisions take long to filter down to the project level activities
 - Disempowerment and centralisation of activities are taking place.
- Information is difficult to obtain and the information dissemination channels are not functioning, therefore constraining project prioritisation efforts and delivery planning.

- It appears as if the LED department is not a funding priority – receiving only 2% of the operating budget in 2004/5 and 2.3% of the 2004/5 capital budget (4.6% in 2005/6).

The next section presents the results of the empirical research that was undertaken in the Sedibeng area.

5.4 THE MUNICIPALITIES AND THE 2004 LED POLICY

As indicated in section 5.1, empirical research was undertaken throughout the four municipal entities throughout the Sedibeng region. This section presents the results of the research and utilises the structure of the questionnaire that was employed. The questionnaire is contained in Annexure A. Inference is made regarding the perceptions of the municipalities, the policy shift and the management implications. The information presented in this section originates from the November 2004 survey. The research indicates that 84.5% of the participants are aware of the 2004 LED policy. However only 38.5% of the respondents have attended the workshops on the policy which were conducted by the Department of Provincial and Local Government (DPLG). **A further observation related to the fact that the municipality's LED units are very small (n = 1; n = 2; n = 3). During a preliminary scan of the survey outcomes it became evident that due to the small samples, it was not statistically appropriate to deal with the municipalities on an individual basis. Therefore the data is viewed as a collective and is dealt with accordingly.**

5.4.1 ACTIONS AND CORE COMPONENTS

This section investigates the current LED actions, which are being undertaken by the municipal institutions as well as the targets of the LED activities. The actions and targets that should be undertaken by the municipalities, as per the 2004 LED Policy, were discussed in section 4.4.1.

The purpose of the analysis is to identify whether the municipal entities are currently undertaking activities, which are associated with the 2002, and 2004 LED Policies. Recall from sections 4.4.1, which compared the core components of the two policies, and as such found that a significant shift has taken place in terms of the focus of the policies. The questions that were included in the questionnaire were designed in a

manner that will highlight the current activities of the municipalities, which are associated with the core components of both policies. The core components associated with 2002 policy and 2004 policy were discussed in section 4.2.1.2 and section 4.3.1.2 respectively. The core components of the 2002 LED Policy and 2004 LED Policy, as identified (see figure 4.1) are presented in table 5.4.

TABLE 5.4: CORE COMPONENTS

Fostering community economic development	Marketing for investment promotion
Linking growth to redistributive development/financing	Support services for small businesses
Investing in human capital	Assistance to targeted growth sectors
Delivering and maintaining infrastructure and services	Tailoring of training and labour placement for the local market
Plugging leaks in the local economy	
Retaining and expanding existing businesses	

Source: see figure 4.1

Table 5.5 summarises the results of the research relating to the actions and therefore the core components. The table presents an indication of the frequency as well as the percentage of respondents who indicated that they are undertaking specific LED related activities.

The municipalities are undertaking activities, which are associated with both the new and the old policies. With reference to the 2002 policy, 100% of the respondents (n=13) indicated that they are undertaking community economic development and 81.8% (n=11) indicated that initiatives to retain capital in the local economy are being implemented (plugging the leaks). Approximately 84.6% of the LED officials (n=11) indicated that activities to stimulate the investment in human capital are being undertaken. The four activities which scored the lowest response, include:

- Tailoring of training and labour placement for the local market (46.2%) (n=13)
- Delivering and maintaining infrastructure and services (69.2%) (n=13)
- Retaining and expanding existing businesses (75.0%) (n=13)
- Linking growth to redistributive development (76.9%) (n=13)

TABLE 5.5: LED ACTIVITIES (CORE COMPONENTS) OF MUNICIPAL LED

Element	Action	Respondents	Frequency			Percentage		
			Don't know	Yes	No	Don't know	Yes	No
1	Fostering community economic development			13			100.0	
2	Linking growth to redistributive development/financing		2	10	1	15.4	76.9	7.7
3	Investing in human capital		1	11	1	7.7	84.6	7.7
4	Delivering and maintaining infrastructure and services		1	9	3	7.7	69.2	23.1
5	Plugging leaks in the local economy	2		9	2		81.8	18.2
6	Retaining and expanding existing businesses	1	2	9	1	16.7	75.0	8.3
7	Marketing for investment promotion			13			100.0	
8	Support services for small businesses	2		11			100.0	
9	Assistance to targeted growth sectors		1	11	1	7.7	84.6	7.7
10	Tailoring of training and labour placement for the local market		4	6	3	33.8	46.2	23.0
11	Capacitating and transformation			12	1		92.3	7.7

Source: Own research

The municipal entities are, however, also undertaking activities that are associated with the 2004 policy. Two of the activities (core components) scored a 100% positive response rate, namely:

- Marketing for investment promotion (100%) (n=13)
- Support services for small business (100%) (n=11)

Additionally the municipalities are involved in a capacity building and transformation process with (92.3%) of the respondents (n=13) indicating that they are currently undertaking actions to strengthen and transform their LED units. A key action, which score relatively low, was the tailoring of training and labour placement activities focusing on the local market.

From the preceding, it is evident that the policy shift implies that the activities, which are being undertaken by the LED units, need to be re-focused. The 2002 policy components are currently being addressed with emphasis also being placed on a number of 2004 policy components. This re-focusing will need to take into consideration the new actions that should be undertaken. The re-alignment of activities will need to take place in a manner that some of the actions being undertaken receive less priority, while others receive more emphasis. Table 5.6 provide an indication of envisaged emphasis modification. The shift in the emphasis is directly informed by the shift in the core components and targets of LED as indicated in the 2004 Policy (see figure 4.1).

TABLE 5.6: EMPHASIS SHIFT IN MUNICIPAL LED ACTIVITIES

Component	Emphasis
Fostering community economic development	Reduce emphasis and delivery
Linking growth to redistributive development/financing	Reduce emphasis and delivery
Investing in human capital	Reduce emphasis and delivery
Delivering and maintaining infrastructure and services	Reduce emphasis and delivery
Plugging leaks in the local economy	Reduce emphasis and delivery
Retaining and expanding existing businesses	Reduce emphasis and delivery
Marketing for investment promotion	Strengthen
Support services for small businesses	Strengthen
Assistance to targeted growth sectors	Increase focused delivery
Tailoring of training and labour placement for the local market	Increase focused delivery
Capacitating and transformation	Increase focused delivery

The general indication from table 5.6 is that the local municipalities will have to significantly re-align their LED activities. The activities, which are currently aligning with the 2004 policy, must be strengthened and expanded.

5.4.2 TARGETS

The current targets of the LED interventions of the municipalities are investigated in this section. The focus of the investigation is on determining whether the current targets will

need to be shifted or whether the existing emphasis is in line with the 2004 policy targets. The shift in the targets of LED activities has been discussed in section 4.4.1. The targets of the two policies were identified as follows:

TABLE 5.7: POLICY TARGETS	
2002 LED Policy	2004 LED Policy
Community based targets	The locality
Entrepreneurial targets	The local economy
Business targets	The skills levels of local individuals
Quality management targets	The local business base
Overall target (the poor)	

(See figure 4.1)

The approach that was followed to identify the current targets of the municipal LED initiatives is similar to the method employed to detect the activities of the various municipalities. Table 5.8 presents the outcomes of the survey with reference to the targets of the LED departments.

TABLE 5.8: MUNICIPAL LED TARGETS								
Action		Sample size	Frequency			Percentage		
			Don't know	Yes	No	Don't know	Yes	No
1	The Community (2002)			12	1		92.3	7.7
2	Local entrepreneurs (2002 & 2004)			13			100.0	
3	Business targets (2002 & 2004)			12	1		92.3	7.7
4	Quality aspects (2002)	3	1	6	3	10	60.0	30.0
5	Low income households/the poor (2002)	1	1	11		8.3	91.7	
6	The total municipal area (2002)			13			100.0	
7	The local economy/business base (2004)		1	12		7.7	92.3	
8	Skills levels (2002 & 2004)		1	10	2	7.7	76.7	15.6

Source: Survey results, 2004

The 2002 policy targets all scored more than a 90% positive response rate i.e. the respondents indicated that the municipalities are currently focusing on the 2002 policy targets. The respective scores were:

- Community targets 92.3% (n=13)
- Entrepreneurial targets 100% (n=13)
- Business targets 92.3% (n=13)

The improvement of the quality of local produce (quality aspects) was not identified as a current target of LED interventions by 40% (n=10) of the respondents. With reference to the 2004 policy targets, the respondents indicated that they are currently aiming their initiatives at the following targets:

- The total municipal area 100% (n=13)
- The local economy/business base 92.7 (n=13)
- Skills levels 76.7 (n=13)

The municipalities are currently aiming at the targets of both the 2002 LED Policy as well as the 2004 LED Policy. It will therefore be necessary to reduce the targets of their current LED initiatives to ensure that a more focused approach is achieved. In other words, the interventions and initiatives of the local municipalities must be refined to focus at fewer dimensions in the local economy. This implies that, the LED activities of the municipalities must be aligned with the outcomes of the 2004 LED Policy. **The following section provides a discussion of the municipal perceptions regarding the management implications identified in section 5.2.1.**

5.5 MUNICIPAL PERCEPTIONS OF THE MANAGEMENT IMPLICATIONS

The purpose of this section is to discuss the outcomes of the research into the municipal management implications, with reference to the shift in the LED policy. The management implications that have been identified and discussed in section 5.2 are utilised as the foundation for the investigation. During the design of the questionnaire

the questions were refined to provide insight into the organisational indications of the management implications. The questions were presented in the form of statements that the respondents had to evaluate in terms of the degree to which they agree or disagree. This section consists of two focus areas. Firstly the outcomes of the analysis are presented and discussed and secondly the results are compared with the outcomes of the interviews that were conducted with the LED practitioners as discussed in section 5.2.1.

5.5.1 MAIN EMPIRICAL FINDINGS

A central element of the survey process was to identify and evaluate the perceptions of the survey participants (LED officials) with reference to a number of related elements. These elements were directly derived from the management implications as mentioned earlier. Table 5.9 presents the overall results. The table presents the minimum, maximum and median observations as well as the mean.

TABLE 5.9: OVERALL OUTCOMES

Statement	Min	Max	Median	Mean	Std. Dev.	Coefficient of Variation	
LED is viewed by the municipality as the key priority	12	1	5	5.0	4.0	1.2	40.8
The LED department is appropriately staffed	12	1	3	3.0	2.4	0.8	32.8
We have a clear understanding of what LED entails	12	3	5	4.0	4.0	0.7	18.5
The LED has it's own dedicated budget for project delivery	12	1	5	3.5	3.3	1.4	43.8
Our IDP provides appropriate guidelines in terms of LED to be undertaken	12	3	5	5.0	4.3	0.8	18.0
We can make decisions regarding LED projects within the department	12	1	5	4.5	3.8	1.3	34.9
We have authority and a mandate to deliver LED independently	12	1	5	3.0	2.8	1.3	47.2
If we had unlimited funding, we would definitely deliver LED much better	12	1	5	5.0	3.7	1.6	42.5
We know where to apply for alternative sources of funding/support	13	1	4	5.0	4.0	1.4	33.9
Our current staff compliment is sufficient to deliver LED	13	1	5	3.0	2.5	1.1	42.7
We are actively involved in the implementation of LED projects	13	1	5	4.0	3.7	1.2	32.0
We have a clear mandate (from council) on what to do in terms of LED	12	2	5	5.0	4.3	1.1	24.8
Our departmental LED vision guides us in our activities	13	3	5	5.0	4.3	0.9	19.8
The municipal vision guides the LED activities	13	3	5	5.0	4.5	0.8	17.1
Councillors have an understanding of LED concepts and dynamics	13	1	5	4.5	3.7	1.8	49.9
We have the municipal managers' direct support in our activities	13	1	5	4.5	3.9	1.4	35.2
The limited funding is our main constraining factor	13	2	5	5.0	4.5	1.0	21.3
The people in the department are LED specialists/specialists in their field	13	1	5	4.0	3.4	1.4	42.7
I am considering finding alternative employment	13	1	5	1.5	2.1	1.3	62.9
My colleagues are competent in their jobs	11	2	5	3.0	3.2	1.1	46.3
Our LED interventions would function better if we had support from council	13	1	5	4.5	3.8	1.5	40.7
The organisational structure and decision-making processes help us in our jobs	13	1	5	3.5	3.3	1.5	45.2
The coordination of LED between local and provincial departments is of high quality	13	1	5	3.0	2.8	2.8	63.9

Source: Survey Results 2004

The mean is utilised as the main indicator of the respondent's level of agreement or disagreement with the statement. Further, the standard deviation of the data and the coefficient of variance (COV) are also included in the table. Essentially the standard deviation and the COV measure the variability of the data. The COV is primarily utilised as it provides an indication of the comparative relative variability rather than the absolute variability. However, as the results of the survey are discussed in detail in the following section, the main findings are highlighted in this section.

As indicated in the introduction, the respondents were asked to rank the various statements. A scale was used through which the respondents had to indicate whether they agree strongly with the statement (5) or whether they strongly disagree (1). A score of 3 is viewed as being neutral on the statement. Through the use of the mean, the following statements were identified as the top 5 statements with which the respondents agreed the most:

- 1) The municipal vision guides the LED activities
- 1) The limited funding is our main constraining factor
- 2) Our IDP provides appropriate guidelines in terms of LED to be undertaken
- 2) We have a clear mandate (from council) on what to do in terms of LED
- 2) Our departmental LED vision guides us in our activities

From the preceding it is clear that the respondents indicated that the municipal vision and mandate, departmental vision and the IDP, provide the LED departments with sufficient guidance regarding the activities that must be undertaken. However the funding of the LED activities is constraining the implementation thereof. With reference to the statements with which the respondents disagreed the most, the following 5 statements apply:

- 1) I am considering finding alternative employment
- 2) The LED department is appropriately staffed
- 3) Our current staff compliment is sufficient to deliver LED
- 4) We have authority and mandate to deliver LED independently
- 5) The coordination of LED between local and provincial departments is of high quality

From a staffing perspective, the respondents indicated that they are not currently considering finding alternative employment (mean = 2.1). However, the high COV (62.9) indicates that there are respondents who are considering finding alternative employment. The reasons for this are beyond the scope of this research. Possible reasons could include:

- Limited scope for career development
- Poor human resource practices such as performance management systems not linked to strategy execution, or
- Low levels of autonomy and project authority.

In terms of the level of staffing in the LED departments, the results indicate that the respondents strongly disagree with the statements dealing with this issue. The respondents strongly disagree (mean = 2.4) that the LED departments are appropriately staffed and a similar degree of disagreement (mean = 2.5) exists for the statement “Our current staff compliment is sufficient to deliver LED”.

The statements and the responses imply that the LED departments are both understaffed (insufficient staff compliment) and that the departments are not staffed with appropriate people. **In other words, the respondents indicated that the departments do not have enough of the “right” people.**

In contrast with the statements that were agreed upon, which indicated that the departments have a clear mandate and vision, the respondents pointed out that they were relatively neutral in terms of whether the departments have the authority to deliver on their LED mandate (mean = 2.8).

5.5.2 COMPARISON OF RESULTS

This section compares the results of the municipal surveys with the outcomes of the LED practitioners' interviews as discussed in section 5.2. The questions that were formulated are categorised and relate to specific management implications. The following table presents the categorisation of the various questions according to the

management implications. Each category is discussed separately in terms of the statements as well as the degree to which it corresponds with the indications from section 5.2.1. The statistical data used for the discussions are presented in table 5.10.

TABLE 5.10: QUESTION CATEGORIES

LED as Municipal priority	LED is viewed by the municipality as the key priority	1
	We have the municipal managers' direct support in our activities	16
	The limited funding is our main constraining factor	17
	Our LED interventions would function better if we had support from council	21
Technical skills	The people in the department are LED specialists/specialists in their field	18
	My colleagues are competent in their jobs	20
Understanding of LED	We have a clear understanding of what LED entails	3
	Councillors have an understanding of LED concepts and dynamics	15
Human resource capacity	The LED department is appropriately staffed	2
	Our current staff compliment is sufficient to deliver LED	10
	I am considering finding alternative employment	19
Own budget	The LED department has it's own dedicated budget for project delivery	4
Practical LED Strategies	We are actively involved in the implementation of LED projects	11
Increased flexibility	We can make decisions regarding LED projects within the department	6
	We have authority and a mandate to deliver LED independently	7
	The organisational structure and decision-making processes help us in our jobs	22
Additional financial resources	If we had unlimited funding, we would definitely deliver LED much better	8
	We know were to apply for alternative sources of funding/support	9
IDP planning	Our IDP provides clear guidelines in terms of LED to be undertaken	5
	The coordination of LED between local and provincial departments is of high quality	23
	We have a clear mandate (from council) on what to do in terms of LED	12
LED Vision	Our departmental LED vision guides us in our activities	13
	The municipal vision guides the LED activities	14

* Refer to the questionnaire in Annexure A, Question 9.

The specific management implications were linked to specific statements in the questionnaire. The respondents were asked to rank the degree to which they agree or disagree with the statement. The preceding table (see table 5.10) lists the statements, which corresponds with each category/municipal implication together with the statement number.

5.5.2.1 LED AS MUNICIPAL PRIORITY

The LED practitioners identified that the most important management implication resulting from the shift in the LED policy, is that LED must become a municipal priority. Four statements were included in the questionnaire to investigate the current status of LED as a priority in the municipalities in Sedibeng (refer to table 5.10). The respondents

were asked whether LED is a municipal priority and the mean of 4.0 obtained from the survey results indicates that LED is viewed as a municipal priority. However the COV of 40.8 indicates that not all the respondents perceived LED to be a municipal priority as indicated by the minimum of 1.

The second statement, "we have the municipal managers' direct support in our activities" recorded a mean of 3.9 implying a relatively lower level of agreement than view with the previously discussed statement, that LED was a municipal priority. However, the COV of 35.2 clearly indicates that the respondents had a relatively homogeneous response to this statement. The aspect of limited funding in the municipal context was highlighted as a key constraining factor and recorded a mean of 4.5. Additionally the majority of the respondents strongly agreed with the statement as is evident from the COV of 21.3.

With reference to the political support (degree to which the councillors support the LED process), a clear observation from the results indicates that the respondents did agree with the statement that the LED activities would function better if the council support was improved. The mean for this element was 3.8 and the COV was 40.8. Therefore, the respondents indicated that they perceived that the support from Council in terms of LED could be improved, and that it would, have a stimulating effect on their activities.

Thus, although LED is being viewed as a municipal priority, the limited funding allocated to LED activities in the municipal context, does not support the view that LED is a municipal priority. Additionally, the support from council for LED could also improve the perceptions regarding the importance of LED in the municipal structures. The average mean of the 4 statements included in the preceding discussion is 4.02. Compared with the indexed mean of 4.5, as obtained from the interviews with the LED practitioners (refer to table 4.4), it implies that the municipalities do not regard LED as such a high priority as the LED practitioners.

5.5.2.2 TECHNICAL SKILLS

The LED practitioners identified the availability of technical skills within the LED departments, as a key implication from the LED policy shift. Two statements were

included in the questionnaire dealing with the technical skills. While the availability of the skills were dealt with in section 5.3.2 under the skills profile section, the questions were designed to indicate whether the individuals active in LED were viewed as specialists in their field and whether they were considered to be competent by their colleagues. The two statements that were included in the questionnaire were:

- Statement 18: The people in the department are LED specialists/specialists in their field
- Statement 20: My colleagues are competent in their jobs

Statements 18 and 20, recorded respective means of 3.4 and 3.2, indicating a relatively neutral stance on these statements. However the COV of the two statements were 42.7 and 46.3 indicating a relatively heterogeneous spread of responses. **It is emphasised that it is unlikely that the respondents will be critical of their own capabilities. The LED practitioners indicated the availability and development of technical skills as a critical management implication of the LED policy shift. The skills profile as well as the outcomes of the survey indicates that the municipalities do not currently have the required capacity to successfully implement the guidelines of the 2004 LED Policy.**

5.5.2.3 UNDERSTANDING LED

In order to measure the perceived understanding of LED, the participants were asked to give an indication of their degree of agreement with the following statement: "We have a clear understanding of what LED entails". The respondents had a uniform response to the statement with a COV of 18.5. A high degree of agreement with the statement was recorded with a mean of 4.0. The skills profile as discussed in section 5.3.2 is once again referred to. While the respondents might perceive that they have an understanding of LED, the skills profile does not support this perception.

With reference to the understanding of LED by the councillors, a mean of 3.7 and a COV of 49.9 were recorded. This implies that the respondents were relatively neutral in their view of the degree to which the councillors understand LED. **The understanding of LED is viewed by the LED practitioners as vitally important. While the survey**

results imply that an understanding of LED does exist in the municipalities, the skills profile does not support this view.

5.5.2.4 HUMAN RESOURCE CAPACITY

The two statements relating to the human resource capacity have been discussed in section 5.4.2.2. The main indications from the discussion in section 5.4.2.2 are that the LED departments are not appropriately staffed nor sufficiently populated. Statement 19, relating to the respondents seeking alternative employment is also included in this category. The high COV (62.9) indicates that the responses were heterogeneous around the relatively low mean (2.1). A consideration which might entice some of the respondents to find alternative employment could relate to perceptions that due to the insufficient staffing of the LED units, the personnel work loads are too high or that some of the staff are not "doing their duties".

5.5.2.5 OWN BUDGET

One of the management implications that were identified by the LED practitioners in section 5.2 was that the LED units should have their own dedicated LED budget for project implementation. Statement 4 provided the LED officials with the opportunity to indicate whether they have a budget for LED delivery. The mean of 3.3 indicates that the respondents were relatively neutral in this instance. **A concern is that the LED officials should know whether or not municipal funding is available for project implementation.** Therefore the implication from the outcome of this analysis is that the internal communication is not effective.

5.5.2.6 PRACTICAL LED STRATEGIES

The practical implementation of LED is associated with the practical strategies which are utilised to guide LED delivery. The statement associated with this management implication asked the participants to indicate whether they are actively involved in the implementation of LED projects and recorded a mean of 3.7. Further, the COV is 32.0 indicating that the response in this regard is relatively homogeneous. This implies that the respondents are relatively neutral on their active involvement in LED delivery.

5.5.2.7 INCREASED FLEXIBILITY

Increased flexibility in the context of this study refers to the ability to make independent decisions within the department-municipal-council framework (as discussed in section 5.3.1.1). Three statements were utilised to gain insight into the flexibility of the departments and municipal organisations. These are:

- We can make decisions regarding LED projects within the department
- We have authority and a mandate to deliver LED independently
- The organisational structure and decision-making processes help us in our jobs

The majority (COV = 34.9) of the respondents indicated that the LED departments are in a position to make decisions regarding LED projects (mean = 3.8) implying that they can take “ownership” of projects. With reference to the authority and mandate to operate independently, the respondents indicated that they are feeling relatively constrained, and not empowered, due to limited authority (mean = 2.8). The respondents were relatively heterogeneous (COV = 47.2) in terms of their perceptions relating to the degree to which they perceive the level to which they are empowered in terms of their authority and mandate. Referring to the organisational structure and the decision-making processes, and their impact on the LED activities, the mean (3.3) recorded indicates that the respondents are neutral. In other words, the respondents did not clearly indicate whether the organisational structure and decision-making process have positive or negative effects on LED delivery. However, the high COV (45.2) implies that the responses were diverse implying that some respondents indicated that the organisational structures and decision-making process are hampering LED delivery, while other respondents indicated that structures and process are assisting LED delivery.

5.5.2.8 ADDITIONAL FINANCIAL RESOURCES

In terms of accessing non-municipal funding, the respondents indicated that they know where, and how to, access alternative sources of funding. The mean recorded with this statement was 4.0. Additionally, the COV of 33.9 implies that the responses were relatively homogeneous.

5.5.2.9 IDP PLANNING

As the IDP is the central planning document and strategic plan for the municipalities, it is necessary to review the perceptions of the LED units in this regard. The respondents were asked to indicate whether the IDP provides appropriate guidelines in terms of LED to be undertaken. The outcomes of this statement have been discussed in section 5.4.3.6 and are not repeated.

A rapid assessment of the IDP's indicated that the minimum requirements as delineated by the DPLG are not met by 3 of the 4 local municipal IDP's (Sedibeng District Municipality, 2003: 18). The outcome of the survey is therefore inconsistent with the rapid assessment of the IDP's.

As indicated in section 3.6.1.2, part of the IDP is utilised to inform the activities of the provincial developments dealing with LED. The respondents indicated that they perceive the coordination of the LED activities which are in the IDP's as relatively poor (mean = 2.8). However, the degree to which the respondents agreed is not homogeneous (COV = 63.9).

As the LED units are responsible for the formulation of the LED dimension as input into the IDP, the perceptions of the respondents relating to their mandate was investigated. The respondents indicated that they do have a clear mandate (mean = 4.3) on what to do in terms of LED (statement 12). Additionally, the respondents were relatively homogenous in terms of their responses as indicated by the low COV of 24.8.

5.5.2.10 LED VISION

The LED vision and the outcomes of the survey were discussed in section 5.4.2.1 and will not be duplicated. **The respondents indicated that the LED visions provide appropriate guidelines for the planning and delivery of LED.**

The following section discusses the inter-relationships and observations from the outcomes of the surveys.

5.5.3 MONITORING & EVALUATION (M&E)

The monitoring and evaluation (M&E) of project implementation is a further consideration that has been investigated. Respondents were asked whether project-monitoring activities were being undertaken. If they indicated that they do undertake such activities, they were requested to provide a brief description of their M&E activities. Nine respondents (69.2%) indicated that M&E activities are being undertaken. The main approach to M&E was through monthly project meetings where feedback would be provided to the relevant internal (municipal) committees. Fifty percent of the respondents indicated that this is the main approach being followed. The other M&E approach that is being followed relates to the use of the individual performance management system that links project objectives with individual performance. Apart from the monthly meetings and the performance management system, no external or project specific M&E activities are being undertaken.

5.6 CONCLUSION

The shift in the LED policy has a number of management implications for local government. The preceding section provided an indication of the municipal perceptions regarding the identified management implications. It must be emphasised that the municipalities are part of a political and bureaucratic system. However the long decision-making processes are hampering the flexibility and ability of the LED departments to deliver on their LED mandate. The following key observations have been identified from the survey results and the salient features of the institutions:

1. The skills and experience base of the LED departments are limited. However, the survey reveals that the staff is neutral in terms of their perceptions regarding the competency of their colleagues.
2. The focus of the LED initiatives needs to be re-aligned with the focus areas and core components of the 2004 policy (e.g. to stimulate and support the local steel industry).
3. The limited availability of funding was identified as a key constraint hampering project implementation activities. However the respondents indicated that they do know from where to access alternative (non-municipal) funding. This implies that the limited municipal funding can be augmented with external (non-municipal) funding alleviating the pressure on the municipal resources

4. With reference to the active involvement of LED departments in LED delivery, a neutral response was recorded. However, during initial contact with the municipal representatives no LED project could be identified which could be utilised in the study
5. It was indicated in section 6.3.1.2 that the municipal IDP's are below standard and that the municipalities have difficulty in implementing the projects contained in the IDP's. Additionally reviews of the IDP's concluded that the LED components of the IDP's are sub-standard. Yet the respondents indicated that the IDP's provide appropriate guidelines.
6. LED is viewed as a municipal priority but is receiving only 2% of the personnel budget (in the case of the Sedibeng District Municipality) and 2.3% of the capital budget.
7. The monitoring and evaluation of the LED projects need to be realigned with the external environment and should be based on alternative criteria *vis-à-vis* the performance management systems currently employed.

These observations are viewed as the considerations that must guide the formulation of the recommendations and the LED management framework. The considerations include:

- Facilitating the establishment of LED as a municipal priority
- Re-aligning LED strategies, through the IDP's to reflect the policy shifts
- Aligning the human resource selection and recruitment process
- Reviewing the budget allocation procedures to increase the municipal resources allocated to LED activities
- Incorporating a suitable monitoring and evaluation procedure in the LED delivery mechanisms.

The following chapter presents the recommendations.

CHAPTER 6: SUMMARY AND RECOMMENDATIONS

6.1 INTRODUCTION

The shift in the LED policy, together with the current approach to managing LED in the Sedibeng District, implies that the LED management activities need to be re-aligned. As discussed in Chapter 5, the municipalities need to depart on a process of re-aligning the institutions that will facilitate improved LED delivery. A total of 4 key intervention areas have been identified. The interventions can be categorised into two priority areas namely, organisational- and departmental level interventions. The interventions need to include and include:

- **Organisation level interventions**
 - Positioning LED as a municipal priority
- **Department level interventions**
 - Refocusing the LED strategies
 - Strengthening the skills base
 - Monitoring and evaluation

The positioning of LED as a municipal priority implies that organisational change needs to be facilitated. At a departmental level, the refocusing of the LED strategies must be undertaken with the emphasis on LED implementation. The chapter presents, in conclusion, management guidelines that will assist and guide the municipalities in adhering to the guidelines of the 2004 LED Policy.

6.2 MANAGEMENT GUIDELINES

The municipalities must implement changes to their approach to LED planning and delivery. As indicated in the introduction of the chapter, two levels of interventions are envisaged. This section provides management guidelines for the deployment of both

levels. The aim however is not to provide a detailed action plan for such deployment but rather to present a roadmap that will assist the municipalities to implement the changes.

6.2.1 ORGANISATIONAL LEVEL INTERVENTIONS

The shift in the LED policy together with the existing delivery of LED is posing a range of challenges to the municipal administrations. The 2004 LED policy is further making the LED delivery framework more complex and the municipalities have to be reformed by adopting their managerial principles. In other words, the LED component needs to be placed at the centre of the municipality. Such a repositioning must be motivated and based on the re-prioritisation of LED with the municipal structure.

The repositioning implies that organisational change must be facilitated. The Sedibeng District Municipality has budgeted R 650 000 for undertaking organisational development activities during 2004/5. It is proposed that this funding be utilised to undertake the required activities to reposition LED within the municipality. In the interim, the Sedibeng District Municipality should assist the local municipalities to re-position their LED activities in the municipalities. The process that is proposed to guide the organizational change is presented in figure 6.1 and is subsequently discussed.

FIGURE 6.1: LED REPOSITIONING PROCESS



(Cummings and Worley, 2001:24)

A total of 7 steps need to be undertaken to ensure that LED is re-positioned in the municipality. Each step is discussed in the following paragraphs.

6.2.1.1 MOTIVATION FOR CHANGE

The repositioning of the LED activities will have a variety of implications for the non-LED departments such as budget cuts and loss of status in the municipality. Additionally the importance of LED in the municipality is not clear to all the employees and decision-makers. It can be expected that some of the political leaders will not share the view that LED must be the central focus of the municipality in comparison to activities such as addressing infrastructure backlogs. This first step has a dual purpose:

- To disseminate information relating to the rationale for the repositioning of LED in the municipality
- To garner support for the organizational change
- To convince management and the political structures of the necessity of the restructuring

The outcome of this step will be that political and management buy-in into the process is achieved.

6.2.1.2 EXTERNAL STAKEHOLDERS

In order to conduct the change process in a manner that reduces the potential for political interference, it is proposed that an external organisational development consultant be appointed. The normal procurement procedures should be followed in the selection of the consultant.

6.2.1.3 MUNICIPAL STRUCTURES

The first activity of the consultant (once appointed) will be to review the structures of the entire municipality together with the budget allocation procedures and prioritisation methods. Specific emphasis must be placed on the identification of inefficiencies throughout the municipality. A key outcome of this step will be an indication of critical shortcomings of the municipality in terms of why LED is not currently perceived as a municipal priority.

6.2.1.4 ALTERNATIVES

Once the critical shortcomings have been identified, alternatives need to be formulated indicating how LED can be repositioned in the municipality as a developmental and municipal priority. The alternatives must indicate preliminary cost (budget) implications, the revised municipal structures, human resources requirements, timeframes and an action plan. The alternatives should be workshopped extensively with the political and management structures of the municipality, in order to assist them to make an informed selection of the restructuring process.

6.2.1.5 REPOSITIONING STRATEGY

Once the repositioning strategy has been selected, the consultant must, through a participatory process, design a repositioning strategy. The strategy must include detailed:

- Municipal structures, post levels and job descriptions
- Budget allocation and prioritisation procedural manuals
- Action and implementation plan with milestones
- Implementation indicators (through which implementation progress can be measured)
- A monitoring and evaluation plan (that will be able to measure the success and failure of the reposition efforts)

6.2.1.6 IMPLEMENTATION

During this step the repositioning strategy must be implemented. The appointed consultant will have a significant role to play during this step and must, apart from facilitating the implementation process, be actively engaged in conflict resolution. The success of the repositioning strategy will be determined during this step of the process. It is therefore vitally important to ensure that the buy-in into the process is maintained throughout the process.

6.2.1.7 MONITORING AND EVALUATION

During and subsequent to the implementation of the strategy and repositioning activities, the changes that are occurring must be monitored and evaluated. The measurement

instruments and indicators must be formulated during the strategy design step. It is emphasised that the monitoring and evaluation activities must measure the implementation process as well as the impact of the repositioning on the municipality as a whole and adjustments should be made where applicable.

6.2.2 DEPARTMENTAL LEVEL INTERVENTIONS

As indicated in the introduction of the chapter, 3 departmental level interventions are required. The interventions will address the management implications of the shift in the LED policy. The interventions are:

- Strengthening the skills base
- Refocusing the LED strategies
- Monitoring and evaluation

Management guidelines are presented for each intervention in the following sections.

6.2.2.1 STRENGTHENING THE SKILLS BASE

A critical shortcoming of the various municipalities, is the narrow skills and experience base. Therefore, two elements must be addressed. Firstly the recruitment procedures should be reviewed and secondly, the existing employees should be capacitated. The second focus area is also one of the core components of the 2004 LED Policy.

From the skills profile in section 5.3.2 it is evident that the relevant experience and relevant skills are in acute shortage in the LED departments. This implies that the recruitment procedures and/or policies are not functioning optimally. With reference to the recruitment procedures, the following guidelines are recommended:

- Review the recruitment policies and procedures to identify why high caliber personnel are not attracted and amend the policies and procedures accordingly
- Establish minimum qualifying criteria for the candidates to meet before becoming eligible for the LED positions e.g. Degree from a recognised institution in the fields of geography, economic or town planning. (see the following paragraph for an indication of the proposed recommendations dealing with the existing LED personnel)

- Draft skills and experience profile targets that will guide future employee recruitment activities and skills development activities.
- Evaluate current staffing requirements based on the actions that should be undertaken and address the gaps in the current skills make-up.

In order to strengthen the existing skills base of the LED departments, the following management guidelines apply:

- Develop detailed skills profiles of all personnel through participation with the individuals and formulate an individual skills development programme. The municipal managers' office should facilitate this process
- Identify appropriate graduate and post-graduate degrees that will assist the LED personnel to more effectively and efficiently deliver and include these programmes in the skills development programme
- Identify personnel to develop into management positions and provide assistance to gain access to tertiary institutions to develop managerial skills e.g. Management Development Programmes (MDP's) or Masters in Business Administration (MBA)
- Include the participation and completion of development programmes as a criteria in the annual performance management systems

6.2.2.2 REFOCUSING THE LED STRATEGIES

A key implication of the shift in the LED policy is associated with the re-alignment of the LED activities. However, based on the skills profile which is currently not optimal, it is proposed that external specialists be contracted to undertake a rapid scan of the current activities. The aim will be to provide guidelines to the municipalities regarding which activities to omit. Additionally the rapid scan should provide guidelines to the municipalities on which activities to strengthen. Table 5.4 should be utilised to direct this rapid assessment.

The outcome of the rapid assessment should be in the format of inputs into the IDP's of the various municipalities for the 2005/6-IDP review process. Additionally, workshops must be conducted with the LED officials and councilors to generate an understanding of the need for the re-alignment and refocusing of the LED activities.

6.2.2.3 MONITORING AND EVALUATION

The final departmental level intervention relates to a complete overhaul of the monitoring and evaluation processes. It was identified during the discussion of the survey results (refer section 5.4.3) that the monitoring and evaluation activities are mainly internally focused. A shift in this focus is proposed to have a more external and project-based emphasis. In other words, the monitoring and evaluation activities should focus on:

- Project specifics such as:
 - Financial indicators
 - Strategic project progress according to milestones
 - Impact on the economic environment holistically
- Focus on qualitative and quantitative indicators for example:
 - Type and number of business opportunities identified
 - Number and types of new businesses who received start-up capital (from a diversity of sources)
 - Number of new entrepreneurs who benefited from technical and financial training (e.g. by the Department of Labour)
 - Qualitative evaluation of all technical and financial training received
 - Number of businesses who reached production stage or marketing stage
 - Difficulties encountered in production or marketing (qualitative analysis)
 - Length of time from start-up of a business to the first revenue flow
 - Ratio between a business' costs and revenue each month, for a period of two years

It is however not envisaged that the internal monitoring and evaluation be ceased but rather that the preceding elements form a basis for the internal monitoring and evaluation. The following section discusses the research implications of the study.

6.3 RESEARCH IMPLICATIONS

The shift in the LED policy has lead to definitive management implications for local government institutions throughout South Africa. This study only investigated the

management implications due to the shift in the policy for the local government sphere. A key question that needs to be researched relates to the relevance of the policy in the South African context. Furthermore, based on the financial and capacity constraints being faced by local governments in South Africa, the question can be posed whether the local sphere of government is the appropriate sphere to drive LED. Further research and appropriate recommendations are required for these two questions.

Additionally the inter-governmental relations and the coordination between the 3 spheres of government and its impact on LED delivery must also be researched. The research must identify specific measures to improve the economic development arena in the country. Other research topics, which should be investigated, include:

- The relevance and appropriateness of the IDP as a LED planning and implementation tool
- The relevance and implications of the policy shift for metropolitan councils
- The current human resource practises in municipalities and their influence on LED
- The potential role of the private sector in the delivery of LED
- The specific reasons why LED is not a municipal priority, and how to rectify the status quo
- The specific skills and capacity requirements in the LED units which will ensure that the LED activities have a marked impact on the local economic environment

While this study investigated the management implications for local government due to the shift in the LED policy, a number of limitations need to be stated which impacted on the study. These limitations include:

- The unavailability of the municipal budgets and audited financial statements restricted the investigation into the budgetary allocations to the LED departments from the municipal organisations.
- The small LED units (in one case $n = 1$) throughout the area had implications for undertaking a detailed investigation of the individual municipal situations and thus the study presents a generalisation of the situation throughout Sedibeng as a totality.

- The narrow skills and experience base of the LED personnel could imply that the personnel had limited insight into the questions being asked. This could translate into a negative impact on the confidence in the statistical outcomes.
- Only the LED departments were included in the research. The inclusion of the total organisation could have highlighted other organisational priorities, which have not been identified.
- The Sedibeng area was the focus of the study. Other areas with different economic and spatial characteristics could have different dynamics. This implies that different management implications, and approaches to addressing these implications, could be needed.

6.4 CONCLUSION

The shift in the LED policy has direct management implications for municipalities in South Africa. The main implications relate to the re-alignment of strategic plans and LED delivery activities. However the general lack of financial resources and insufficient technical and relevant skills is hampering LED delivery. These constraints are, however, an indication of the fact that LED is not a municipal priority.

Management guidelines to facilitate a reprioritisation of LED in the municipal organisation were presented in this chapter. The repositioning implies that the entire organisation will have to adapt to a renewed focus. The re-alignment of the municipal priorities with LED as the central component will further imply that fewer resources will be available for meeting other municipal priorities such as infrastructure backlogs. Therefore, resistance to the change could be expected. The re-alignment of the municipal priorities must be accompanied by a refocusing of the LED department's activities in terms of:

- Re-aligning LED strategies, through the IDP's to reflect the policy shifts
- Aligning the human resource selection and recruitment process
- Incorporating a suitable monitoring and evaluation procedure in the LED delivery mechanisms.

The establishment of financially resourced and appropriately staffed LED departments is not a panacea for delivering LED. However the 2004 LED Policy presents a clearer vision of the specific activities to be undertaken by the LED departments. Thus, by addressing the management implications of the LED policy shift, municipalities will be in a better position to respond to changing local and global economic environments.

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ANNEXURE A: QUESTIONNAIRE

ANNEXURE B: STANDARD INDUSTRIAL
CLASSIFICATION (SIC)

The main categories of the *South African Standard Classification of all Economic Activities (SIC) of 1993 (CSS, 1993)* are utilised for this purpose. A total of 9 sectors are distinguished. A frequently asked question for example, relates to into which sector tourism falls. The tourism industry generally spans across the economic sectors, ranging from accommodation and catering (SIC no: 6410 and SIC no: 6420), retail and wholesale SIC no: 61221 and SIC no: 6220), manufacturing (e.g. of arts and craft – SIC no: 39299), business services and social services. Activities such as sport are included under the community services' sector under SIC no: 9641. The 9 economic sectors are defined as follows (CSS, 1993: 3):

1. Agriculture

The agriculture sector incorporates establishments and activities that are primarily engaged in farming activities, but also includes establishments focusing on commercial hunting and game propagation and forestry, logging and fishing.

2. Mining

This sector includes the extracting, beneficiating of minerals occurring naturally, including solids, liquids and crude petroleum and gases. It also includes underground and surface mines, quarries and the operation of oil and gas wells and all supplemental activities for dressing and beneficiating for ores and other crude materials.

3. Manufacturing

This sector is broadly defined as the physical or chemical transformation of materials or compounds into new products and can be classified into 10 sub-groups of which the most relevant are

- Fuel, petroleum, chemical and rubber products;
- Other non-metallic mineral products, e.g. glass;
- Metal products, machinery and household appliances;
- Electrical machinery and apparatus;

4. Utilities (generally referred to as "electricity")

This sector includes the supply of electricity, gas and hot water, the production, collection and distribution of electricity, the manufacture of gas and distribution of gaseous fuels through mains, supply of steam and hot water, and the collection, purification and distribution of water.

5. Construction

This sector includes the site preparation, building of complete constructions or parts thereof, civil engineering, building installation, building completion and the renting of construction or demolition equipment with operators.

6. Trade

The trade sector entails wholesale and commission trade; retail trade; repair of personal household goods; sale, maintenance and repair of motor vehicles and motor cycles; hotels, restaurants, bars, canteens, camping sites and other provision of short-stay accommodation.

7. Transport, storage and communication

Transport as an economic sector refers to activities concerned with land transport, railway transport, water transport, transport *via* pipelines, air transport, activities of travel agencies, post and telecommunications, courier activities, as well as storage and warehousing activities.

8. Financial and business services

This sector includes *inter alia* financial intermediation; insurance and pension funding; real estate activities; renting or transport equipment; computer and related activities; research and development; legal; accounting; bookkeeping and auditing activities; architectural, engineering and other technical activities; and business activities not classified elsewhere.

9. Social and community services

This sector includes public administration and defence activities, activities of government, government departments and agencies; education, public and private; health and social work; sewage and refuse disposal, sanitation and similar activities; activities of membership organisations; recreational, cultural and sporting activities;

washing and dry-cleaning of textiles and fur products, hairdressing and other beauty treatment, funeral and related activities.

ANNEXURE C: MUNICIPAL CATEGORIES

The establishment of municipalities are guided by the Constitution of South Africa. Section 155 contains the guidelines relating to the various categories of municipalities. Section 155(1) provides the following classification of municipalities:

- a. **Category A:** A municipality that has exclusive municipal executive and legislative authority in its area.
- b. **Category B:** A municipality that shares municipal executive and legislative authority in its area with a category C municipality within whose area it falls.
- c. **Category C:** A municipality that has municipal executive and legislative authority in an area that includes more than one municipality.

The Constitution states in Section 155(3) that the national legislation must

- a. establish the criteria for determining when an area should have a single category A municipality or when it should have municipalities of both category B and category C;
- b. establish criteria and procedures for the determination of municipal boundaries by an independent authority; and ..

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The Demarcation Board was established to deal with the demarcation of the various municipalities. The specific objectives that were utilised as criteria during the demarcation process is contained in Sections 24 and Section 25 of the Demarcation Act (37/1998). The two sections are presented in the following sections.

SECTION 24

When the Board determines a municipal boundary its objective must be to establish an area that would -

- a. enable the municipality for that area to fulfil its constitutional obligations, including -
 - i. the provision of democratic and accountable government for the local communities;
 - ii. the provision of services to the communities in an equitable and sustainable manner;
 - iii. the promotion of social and economic development; and
 - iv. the promotion of a safe and healthy environment;
- b. enable effective local governance;
- c. enable integrated development; and
- d. have a tax base as inclusive as possible of users of municipal services in the municipality.

The factors to be taken into account during the demarcation process are presented in Section 25 of the Demarcation Act (27/1998) and stipulates: "in order to attain the objectives set out in section 24, the Board must, when determining a municipal boundary, take into account -

- a. the interdependence of people, communities and economics as indicated by-
 - i. existing and expected patterns of human settlement and migration;
 - ii. employment;
 - iii. commuting and dominant transport movements;

- iv. spending;
 - v. the use of amenities, recreational facilities and infrastructure; and
 - vi. commercial and individual linkages;
- b. the need for cohesive, integrated and unfragmented areas, including metropolitan areas;
 - c. the financial viability and administrative capacity of the municipality to perform municipal functions efficiently and effectively;
 - d. the need to share and redistribute financial and administrative resources;
 - e. provincial and municipal boundaries;
 - f. areas of traditional rural communities;
 - g. existing and proposed functional boundaries, including magisterial districts, voting districts, health, transport, police and census enumerator boundaries;
 - h. existing and expected land use, social, economic and transport planning;
 - i. the need for co-ordinated municipal, provincial and national programmes and services, including the needs for the administration of justice and health care;
 - j. topographical, environmental and physical characteristics of the area;
 - k. the administrative consequences of its boundary determination on –
 - i. municipal creditworthiness;
 - ii. existing municipalities, their council members and staff; and
 - iii. any other relevant matter; and
 - l. the need to rationalise the total number of municipalities within different categories and of different types to achieve the objectives of effective and sustainable service delivery, financial viability and macro-economic stability.

ANNEXURE D: EQUITABLE SHARE

Extract from: Monitoring Anti-Poverty Programmes Report.

Prepared for the Department of Provincial and Local Government (DPLG). 2001. 21p.

Provincial and local governments are constitutionally entitled to an unconditional transfer that enables them to perform key service functions and that supports them institutionally. These unconditional transfers are referred to as “**equitable share**”. Cabinet, based on its strategic priorities, determines the equitable shares for the different spheres annually. The National Treasury manages the equitable share transfers to the provinces, while DPLG is in charge of the transfers to municipalities, including monitoring of disbursements.

In the nature of unconditional funding, monitoring is broad rather than against specific programme objectives as in the case of other transfers. The Treasury and DPLG continue to refine the allocation criteria so as to ensure that the transfers meet the target groups, mainly the poor, with a bias towards rural areas. Allocations to local government have been smaller than those to provinces, because municipalities have considerable own revenue sources and provinces do not. However, the local government allocation is projected to grow much faster over the medium term.

Equitable share allocations are paid directly to municipalities, and in rural areas it flows through the District Councils. Because it is an unconditional grant, the monitoring is not very detailed, and municipalities can apply the funds as they deem fit.

Monitoring in the case of the equitable share has occurred since 1999. It aims to measure whether target beneficiaries receive services and to check how the allocations are utilised by municipalities (eg. for services, infrastructure, operating expenditure etc.). Currently, this monitoring covers District Councils, who report on behalf of the category B municipalities in their areas that need the District Council's support to manage the allocations. The key indicators employed to determine the allocation of the equitable share include:

- the number of poor households per municipality
- the urban/rural distribution of allocations
- population and average income.

For this purpose, Statistics South Africa (SSA) data is utilised, and supplemented with data obtained from municipalities. Data captured covers categories of expenditure (how it is utilised), and is used to reflect on and amend policies relevant to the equitable share.

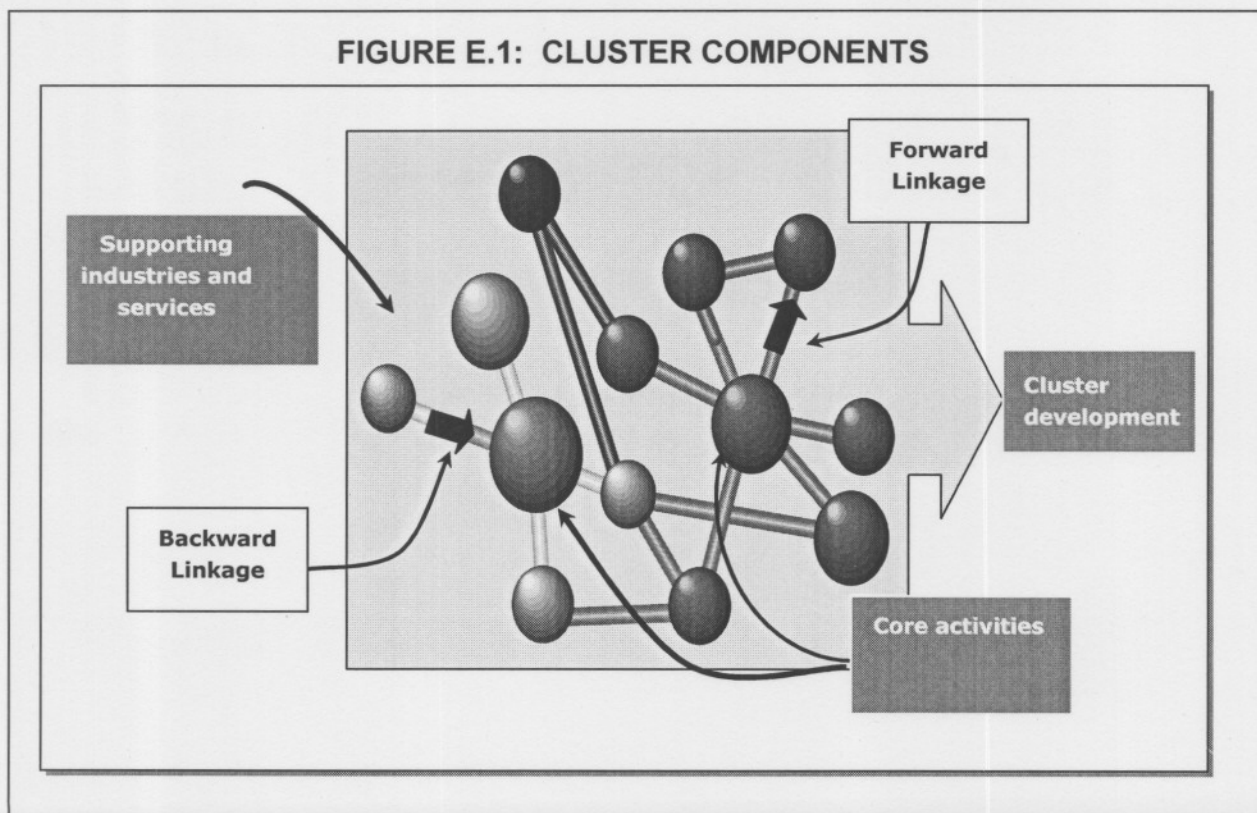
There are no Key Performance Indicators (KPI's) for the measuring of the deployment of the funds. However, monitoring does take place with the main purpose being to account for funds and to prevent or deal with misappropriations. Reporting on the equitable share occurs through normal government processes, such as the Portfolio Committee and cabinet. An annual report is issued that gets distributed to the Portfolio Committee, cabinet, departments, municipalities and stakeholders. Currently there is not much feedback to municipalities, but actions are currently being investigated to improve the feedback system to municipalities.

ANNEXURE E: ECONOMIC CLUSTERS

A critical consideration in the development of clusters is agglomeration advantages. Agglomeration advantages refer to the advantages that emanate from the concentration of activities in a geographic location and the development of backward and forward linkages with other activities, both within and outside a certain geographic location. Economic linkages mean the flow of goods and services between at least two agents / producers.

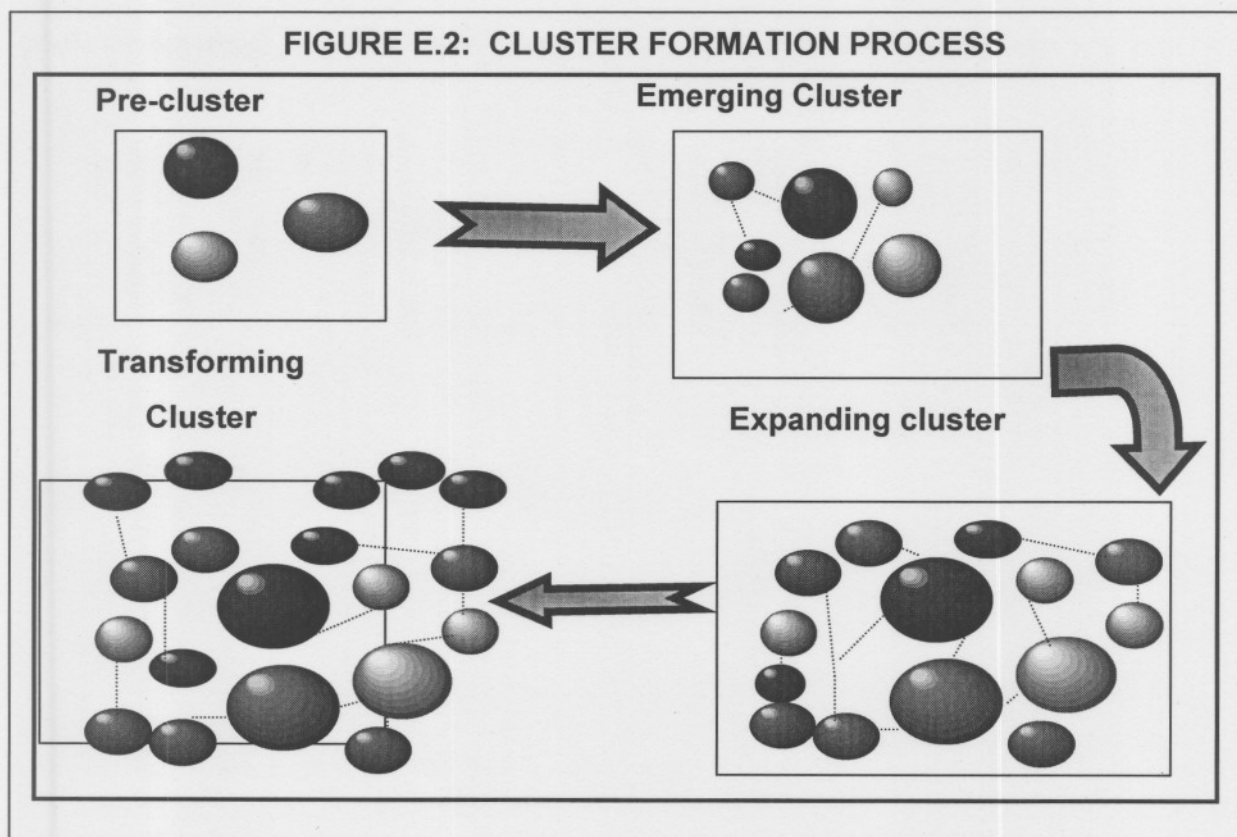
The cluster - concept is an internationally acclaimed approach to industrial development. The cluster concept can be defined as: "the optimal development of the forward and backward linkages of a major sector to integrate the total value chain, also taking into consideration all external factors which impact on the competitiveness of the sector. A cluster has at its core an economic sector (refer to Annexure B). The definition suggests that the concept consists of the following three main elements which are graphically illustrated in figure E.1:

- Core sector
- Linkages
- External factors



The potential of a catalyst industry to have a cluster formed around it depends on the number of potential forward and backward linkages of that industry, as well as the viability of the businesses with which it can form linkages. As far as backward linkages are concerned, the availability of raw materials or industries which beneficiate raw materials is an important consideration. With reference to forward linkages, the general viability of the industry with which the catalyst has a forward linkage should be considered. A particular challenge is to attract investment and promote development in the cluster to “prepack” it into a mature cluster.

Figure E.2 indicates the cluster formation process. New facilitation techniques are increasingly required to enable the development of clusters towards increased competitiveness. A prerequisite for the successful development of the cluster, associated with investment and delivery of results, is the need to directly involve the industry players in the initiative



The cluster formation process places the emphasis on delivery – thereby moving away from pure analysis and embracing the action-orientated concept of creating development opportunities based on agglomeration advantages. The cluster methodology can be applied as a tool to increase competitiveness, but the economy must be able to attract **new investment**. This necessitates that the most recent technological improvements and techniques need to be taken cognisance of and facilitated within the cluster network.

The principle of **networking** is becoming increasingly important in the move towards increased competitiveness in the economy. In this regard clustering initiatives can be regarded as a tool to set up local networks within specific sub-sectors. Clusters are formed by various organisations to form quality relationships and networks in a specific industry. This networking approach represents one of the latest trends in cluster analysis and is at the forefront of international cluster developments. The central theme is one of cooperation. The growing trend appears to be an increasing openness **between industries** in a cluster and between the cluster and the public sector. The emphasis has therefore moved from competition to cooperation with industries creating joint forums from where they share information. Evidence suggest that internationally movements towards cooperation is taking place.

Lastly, a critical element of this action is to initiate the process of investment brokerage, by a development agency, including the interpretation and the translation of marketable projects in implementable action plans. The process of project brokerage can be described where business plans are prioritised for implementation on an ongoing basis, therefore ensuring a continuous flow of investment information on bankable opportunities in the area.

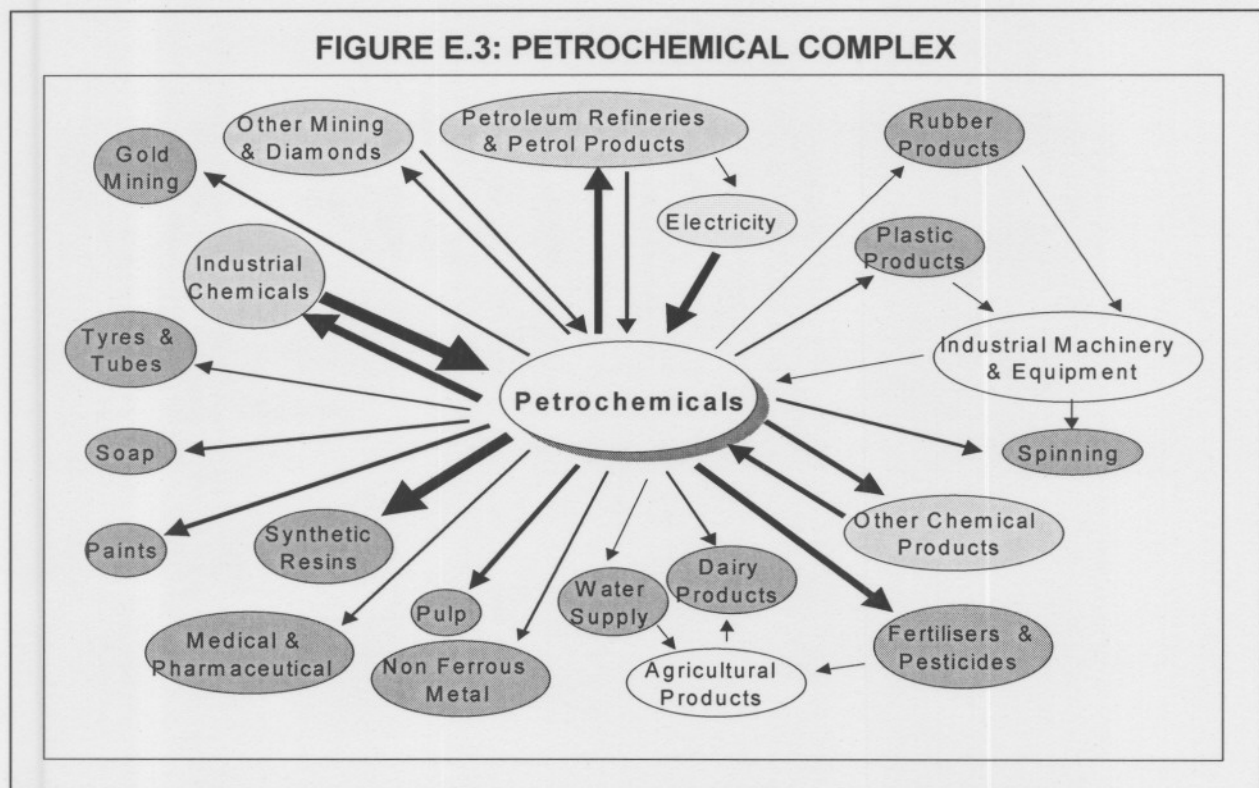
The following section presents an overview of the petrochemical cluster in Johannesburg International Airport area. The overview is an extraction from the “Focused Industrial Sector Evaluation for Johannesburg International Airport”. The study was commissioned by the Johannesburg Development Agency in 2002.

A number of activities are central to the petrochemical cluster. The cluster comprises of industries in the basic chemicals and fibres, plastics and rubber sub-sectors. The basic

chemical industry has strong linkages with paints, varnished and resins, agricultural chemicals, fibres, plastics and rubbers. As a result the construction sector is linked to the petrochemical complex, especially in terms of goods and services. The main industries that the petrochemical cluster provides goods and services to the following:

- Automotive - rubber, plastic components and paints
- Communications and electronics - plastic components
- Textiles and footwear - fibres and rubber
- Construction - paints, varnishes and resins
- Food and agricultural products - chemicals and packaging.

Figure E.3 documents the forward and backward linkages occurring in the petrochemical cluster in Gauteng. Gauteng is the region that the Johannesburg International Airport services.



The arrows illustrate the linkages. An arrow pointing away from the cluster indicates an output or forward linkage. Subsequently an arrow pointing towards the cluster indicates an input or backward linkage. The width of the arrow is indicative of the size of the linkage, i.e. the wider the arrow the larger the size of the linkage and vice-versa. For

ease of identification the industries that provide inputs to the cluster are shaded light grey, the industries that receive outputs are shaded dark grey and the industries that provide both inputs and outputs are shaded mid grey.

ANNEXURE F: LOCAL ECONOMIC DEVELOPMENT
LEARNERSHIP FRAMEWORK

THE LED LEARNERSHIP FRAMEWORK			
	NQF 4 LED Officer	NQF 5 LED Coordinator	NQF 6 LED Manager
Qualification ID	36436	36438	36437
Learnership code	14Q140022351654	14Q140023251425	14Q140024191496
Scope of training and work	• Orientation: LED projects • Intro into legal and municipal environment • Intro into concepts and tools of LED • Community participation • Planning processes and assessment viability of LED projects • Support implementation of LED projects rather than direct involvement • Keep projects on track • Progress reports	• Orientation: LED programme • Consider international trends, national and provincial strategies • Set up the institutional arrangement for LED • Design a comprehensive programme based on LED projects • Resourcing of the LED programme • Supervise implementation of LED programme and coaching of project team	• Orientation: Strategic framework • Contribute/decide about the LED policy • Develop a long-term LED strategy • Organize LED focused research • Facilitate strategic partnerships • Facilitate LED delivery across municipal boundaries • Manage operations of the LED unit • Impact analysis of LED activities
Learnership Modules	<u>Module I</u> The municipal environment for LED <u>Module II</u> Prepare and plan for LED projects <u>Module III</u> Assess the viability of LED projects <u>Module IV</u> Monitoring & reporting of LED projects <u>Module V</u> Elective (Admin or HR)	<u>Module I</u> The context of LED programmes <u>Module II</u> Prepare and secure resources for LED programmes <u>Module III</u> Implement LED programme <u>Module IV</u> Evaluate LED programme <u>Module V</u> Elective (Admin or HR)	<u>Module I</u> The strategic context of LED <u>Module II</u> Strategic LED plan for a Municipality <u>Module III</u> Prepare framework for LED programmes <u>Module IV</u> Evaluate effectiveness and impact of LED programmes <u>Module V</u> Elective (Admin or HR)
Duration	1 year	1 year	1 year
Recommended entry requirements	<u>Unemployed</u> Matric <u>Employed</u> Standard 10/11 + at least 2 years practical experience in public admin, urban planning or local economic development	<u>Unemployed</u> Learnership on NQF 4 completed <u>Employed</u> Matric + at least two year experience in urban planning, municipal management or local economic development	<u>Unemployed</u> Learnership on NQF 4 & 5 completed <u>Employed</u> LS completed on NQF

MANAGEMENT IMPLICATIONS OF THE SHIFT IN THE LED POLICY

1. In which municipality are you working?

Emfuleni		Lesedi		Sedibeng		Midvaal	
----------	--	--------	--	----------	--	---------	--

2. How many people are working in the LED department (including tourism)?

Professionals	0-2		3-5		5-9		10+
Support (e.g. secretarial)		0-2		3-5		5+	

3. How many years relevant experience do you have (in the LED field)

Number of years	0-3		4-6		7-9		10+
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4. What is your highest qualification?

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5. Are you aware of the new LED policy?

Yes		1		No		2
-----	--	---	--	----	--	---

6. Did you attend the DPLG workshops regarding the new LED policy?

Yes		1		No		2
-----	--	---	--	----	--	---

7. Is your department providing any of the following services/activities? Please mark all the activities being undertaken.

Action	Don't know	Yes	No
1. Fostering community economic development			
2. Linking growth to redistributive development/financing			
3. Investing in human capital			
4. Delivering and maintaining infrastructure and services			
5. Plugging leaks in the local economy			
6. Retaining and expanding existing businesses			
7. Marketing for investment promotion			
8. Support services for small businesses			
9. Assistance to targeted growth sectors			
10. Tailoring of training and labour placement for the local market			
11. Capacitating and transformation			

8. Who/what are the targets of your LED activities?

Target	Don't know	Yes	No
1. The community			
2. Local entrepreneurs			
3. Business targets			
4. Quality aspects			
5. Low income households/the poor			
6. The total municipal area			
7. The local economy/business base			
8. Skills levels			

9. Please rate the following statements on a scale of 1-5. If you *totally disagree*, give a score of 1, and if you *totally agree with the statement* give it a 5. A score of 3 is neutral.

Statement	Score
1. LED is viewed by the municipality as the key priority	
2. The LED department is appropriately staffed	
3. We have a clear understanding of what LED entails	
4. The LED has it's own dedicated budget for project delivery	
5. Our IDP provides appropriate guidelines in terms of LED to be undertaken	
6. We can make decisions regarding LED projects within the department	
7. We have authority and a mandate to deliver LED independently	
8. If we had unlimited funding, we would definitely deliver LED much better	
9. We know were to apply for alternative sources of funding/support	
10. Our current staff compliment is sufficient to deliver LED	
11. We are actively involved in the implementation of LED projects	
12. We have a clear mandate (from council) on what to do in terms of LED	
13. Our departmental LED vision guides us in our activities	
14. The municipal vision guides the LED activities	
15. Councillors have an understanding of LED concepts and dynamics	
16. We have the municipal managers' direct support in our activities	
17. The limited funding is our main constraining factor	
18. The people in the department are LED specialists/specialists in their field	
19. I am considering finding alternative employment	
20. My colleagues are competent in their jobs	
21. Our LED interventions would function better if we had support from council	
22. The organisational structure and decision-making processes help us in our jobs	
23. The coordination of LED between local and provincial departments is of high quality	

10. Are you monitoring and evaluating your LED activities? If yes how?

No		Yes	

11. Do you think the new policy will make LED...?

Easier		More difficult		Don't know	
--------	--	----------------	--	------------	--

12. What do you think is the single most important issue constraining LED delivery apart from limited funding?

Thank you for your cooperation