LOCAL ECONOMIC DEVELOPMENT IN THE EMFULENI MUNICIPAL AREA: A CRITICAL ANALYSIS

Lennard Clifford van Vuren, Honours B.Com. (Economics)

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Supervisor: Prof T.J.C. Slabbert
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ABSTRACT

Increasing emphasis is being placed on local economic development (LED) by the South African government, given the paradigm shift away from local government being viewed as simply delivery agents to the concept of developmental local government. LED is essentially an ongoing process, based on local initiatives and driven by local stakeholders (especially the local government) to stimulate economic activity and to create jobs in a specific locality.

The structural weaknesses and problems of the Emfuleni Municipal Area (EMA) economy highlight the importance and urgency of LED in the EMA. The purpose of the study is therefore to investigate, analyse and evaluate LED in a South African context, with specific reference to the EMA. The research method is literature-based, with some research aspects of an empirical nature.

Firstly, LED is investigated in the South African context. It was determined that LED has a legal mandate in South Africa and that South African experience shows, that roleplayers in the local economy and specifically local governments, have developed a wide range of LED strategies to promote the development of the local economy. Institutional options for the implementation of LED in South Africa, include LED units, Community Development Trusts (CDTs), section 21 companies, and partnerships with other stakeholders.

Secondly, the financing of LED is also investigated in the South African context. It was determined, that there is no single national fund to promote LED. LED is the responsibility of all government departments and agencies, and all roleplayers throughout society. The most important resources available to meet LED objectives, are existing transfers from the national government (especially the National Treasury and the Department of Provincial and Local Government – DPLG) to local governments. Unconditional equitable share transfers and conditional infrastructure transfers can be highlighted in this regard. A local government's budget can also be an important tool to stimulate LED in a specific locality.

Thirdly, a socio-economic overview of the EMA is given. The EMA is currently experiencing abnormal high unemployment and poverty rates. The EMA's contribution

to the Gauteng economy is 6% and its share in terms of Gauteng's manufacturing sector, is 12.7%. The manufacturing sector's share to the EMA economy is declining, but still more than 40% in respect of economic activities of the region. The socio-economic problems and challenges of the EMA highlight the importance of LED in the EMA.

Fourthly, LED in the EMA, and specifically the role of the Emfuleni Local Municipality (ELM) in this regard, is investigated. The importance of LED is reflected in the ELM's Integrated Development Plan (IDP), vision, mission, core strategies and operational plans. LED is also part of the ELM's organisational structure and arrangements. Several potential LED strategies were already formulated by the ELM, but there are some questions about the practical implementation thereof. There also are other LED roleplayers and initiatives in the EMA, such as the Vaal Economic Regeneration Board (VERB) and Vaalgro. Government funding to the ELM for LED purposes include unconditional, conditional and recurrent transfers from the national government, for especially poverty alleviation and infrastructure purposes.

Some of the recommendations in the study, include the need for prioritisation and implementation of LED strategies in the EMA. The ELM, in partnership with other stakeholders, should develop a common vision for the EMA and must formulate and implement LED strategies to realize the region's development objectives. The LED strategies should be aimed at the creation of jobs, promotion of investment and economic growth and also the alleviation of poverty. The ELM should also explore and utilize all possible government and other resources and avenues of funding for LED purposes. A restructuring grant from the National Treasury and the ELM's budget, could constitute powerful tools towards promoting LED in the EMA.

OPSOMMING

Die Suid-Afrikaanse regering plaas toenemend klem op plaaslike ekonomiese ontwikkeling ("local economic development – LED"), gegewe die paradigma-verskuiwing weg van waar die plaaslike owerheid slegs dienste verskaf na plaaslike owerhede se ontwikkelingsrol. Plaaslike ekonomiese ontwikkeling is 'n deurlopende proses, gebaseer op plaaslike inisiatiewe en gedryf deur plaaslike rolspelers (veral die plaaslike owerheid) met die doel om in 'n sekere gebied ekonomiese aktiwiteite te stimuleer en werk te skep.

Die strukturele probleme van die ekonomie van die Emfuleni Munisipale Gebied beklemtoon die belangrikheid en dringendheid van plaaslike ekonomiese ontwikkeling in dié area. Die doel van die studie is derhalwe om plaaslike ekonomiese ontwikkeling binne 'n Suid-Afrikaanse konteks, met spesifieke verwysing na die Emfuleni Munisipale Gebied, beide te ondersoek en te evalueer. Die navorsingsmetode is hoofsaaklik 'n literatuurstudie, gepaard met sekere navorsingsaspekte van 'n empiriese aard.

Eerstens word plaaslike ekonomiese ontwikkeling in 'n Suid-Afrikaanse konteks ondersoek. Daar is vasgestel dat plaaslike ekonomiese ontwikkeling 'n wettige mandaat in Suid-Afrika het en dat rolspelers in die plaaslike ekonomie, soos veral plaaslike owerhede, reeds 'n wye verskeidenheid van LED strategieë ontwikkel het. Institusionele opsies vir die implementering van plaaslike ekonomiese ontwikkeling in Suid-Afrika sluit in plaaslike ekonomiese ontwikkelingseenhede, gemeenskaps-ontwikkelingstrusts, artikel-21 maatskappye en vennootskappe met ander rolspelers.

Tweedens word die finansiering van plaaslike ekonomiese ontwikkeling in Suid-Afrika ondersoek. Daar is vasgestel dat daar nie slegs een enkele nasionale fonds in die verband bestaan nie. Dit is die verantwoordelikheid van alle staatsdepartemente en –agentskappe, asook van alle relevante rolspelers in die gemeenskap. Belangrike finansiële bronne wat beskikbaar is vir plaaslike ekonomiese ontwikkeling, is bestaande oordragte van die nasionale regering (veral die Nasionale Tesourie en die Departement van Provinsiale en Plaaslike Owerheid) na plaaslike owerhede. Voorwaardelike en onvoorwaardelike oordragte en skenkings kan in die verband uitgesonder word.

Begrotings van plaaslike owerhede kan ook 'n belangrike instrument wees om plaaslike ekonomiese ontwikkeling in 'n bepaalde gebied te stimuleer.

Derdens word 'n sosio-ekonomiese oorsig van die Emfuleni Munisipale Gebied verskaf. Dié gebied word tans gekenmerk deur 'n abnormaal hoë werkloosheids- en armoede-koers. Die Emfuleni Munisipale Gebied se bydrae tot die Gautengse ekonomie is 6% en dié gebied se aandeel in Gauteng se vervaardigingsektor is 12.7%. Die vervaardigingsektor se aandeel in die ekonomie van die Emfuleni Munisipale Gebied, is besig om af te neem, hoewel dit steeds meer as 40% van die gebied se ekonomiese aktiwiteite uitmaak.

Vierdens word plaaslike ekonomiese ontwikkeling en spesifiek die rol van die Emfuleni Plaaslike Munisipaliteit in die verband ondersoek. Die belangrikheid van plaaslike ekonomiese ontwikkeling word weerspieël in die Emfuleni Plaaslike Munisipaliteit se geïntegreerde ontwikkelingsplan, visie, missie, kernstrategieë en operasionele planne. Dit is ook deel van die plaaslike owerheid se organisatoriese struktuur. Heelwat potensiële plaaslike ekonomiese ontwikkelingstrategieë is reeds deur die Emfuleni Plaaslike Munisipaliteit geformuleer. Daar is egter vrae rondom die praktiese implementering van hierdie strategieë. Daar is ook tans ander rolspelers en inisiatiewe t.o.v. plaaslike ekonomiese ontwikkeling in die Emfuleni Munisipale Gebied soos o.a. die "Vaal Economic Regeneration Board" (VERB) en Vaalgro. Fondse vanaf die nasionale regering na die Emfuleni Plaaslike Munisipaliteit, sluit in beide onvoorwaardelike en voorwaardelike oordragte vir o.a. armoede-verligting en infrastruktuur-doeleindes.

Van die aanbevelings in die studie sluit in die behoefte vir die prioritisering en implementering van plaaslike ekonomiese ontwikkelingstrategieë in die Emfuleni Munisipale Gebied. Die Emfuleni Plaaslike Munisipaliteit behoort in vennootskap met ander rolspelers 'n gesamentlike visie vir die gebied te ontwikkel en moet ook strategieë formuleer en implementeer wat met die gebied se ontwikkelingsdoelwitte ooreenstem. Die plaaslike ekonomiese ontwikkelingstrategieë moet ten doel hê om werkskepping, investering en ekonomiese groei te bevorder asook om armoede te verlig. Alle moontlike regerings- en nie-regeringsfondse vir plaaslike ekonomiese ontwikkelings-doeleindes, moet ook maksimaal ontgin en benut word. 'n Herstruktureringskenking van

die Nasionale Tesourie, asook die Emfuleni Plaaslike Munisipaliteit se begroting kan belangrike instrumente wees in die bevordering van plaaslike ekonomiese ontwikkeling in die Emfuleni Munisipale Area.

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LIST OF ABBREVIATIONS

ANC	:	African National Congress
ANON	:	Anonymous
BAC	:	Business Advice Centre
BDDSA	:	British Development Division in South Africa
BP	:	British Petroleum
BTT	:	Board on Tariffs and Trade
CASE	:	Community Agency for Social Enquiry
CBO	:	Community-Based Organisations
CDT	:	Community Development Trust
CMIP	:	Consolidated Municipal Infrastructure Programme
DBSA	:	Development Bank of Southern Africa
DPLG	:	Department of Provincial and Local Government
DTI	:	Department of Trade and Industry
DFA	:	Development Facilitation Act
EDP	:	Economic Development Plan
ELM	:	Emfuleni Local Municipality
EMA	:	Emfuleni Municipal Area
EPZ	:	Export Processing Zone
EVMA	:	Eastern Vaal Metropolitan Area
FDI	:	Foreign Direct Investment
FFC	:	Financial and Fiscal Commission
GAMAC	:	Generally Accepted Municipal Accounting Practice

GAUMAC	:	Gauteng Manufacturing Advisory Centre
GDP	:	Gross Domestic Product
GEAR	:	Growth, Employment and Redistribution
GEDA	:	Gauteng Economic Development Agency
GGP	:	Gross Geographic Product
GSEZP	:	Gauteng Special Economic Zone Programme
GTA	:	Gauteng Tourism Agency
HEL	:	Household Effective Level
HSL	:	Household Subsistence Level
IBFC	:	Independent Business Finance Centre
IBRD	:	International Bank for Reconstruction and Development
IDC	:	Industrial Development Corporation
IDP	:	Integrated Development Plan
IDT	:	Independent Development Trust
IDZ	:	Industrial Development Zone
IGFR	:	Intergovernmental Fiscal Review
IRI	:	International Republican Institute
LBSC	:	Local Business Service Centre
LDO	:	Land Development Objective
LED	:	Local Economic Development
LEDF	:	Local Economic Development Fund
LGTA	:	Local Government Transition Act
LIP	:	Local Industrial Park

MAC	:	Manufacturing Advisory Centre
MIDP	:	Motor Industry Development Programme
MIG	:	Municipal Infrastructure Grant
MIIU	:	Municipal Infrastructure Investment Unit
MTEF	:	Medium Term Expenditure Framework
NAMAC	:	National Manufacturing Advisory Centre
NBI	:	National Business Initiative
NGO	:	Non-Governmental Organisation
NOAH	:	National Organic Agriculture and Healing
ODA	:	Organisation Development Africa
PBO	:	Public Benefit Organisation
PPP	:	Public-Private Partnership
RDP	:	Reconstruction and Development Programme
RSC	:	Regional Service Council
SA	:	South Africa
SADC	:	Southern African Development Community
SALGA	:	South African Local Government Association
SDI	:	Spatial Development Initiative
SEZ	:	Special Economic Zone
SMME	:	Small, Medium and Micro Enterprise
Stats SA	:	Statistics South Africa
SWOT	:	Strengths, Weaknesses, Opportunities and Threats
USAID	:	United States Agency for International Development

VBF	:	Vereeniging Besigheidsforum
VERB	:	Vaal Economic Regeneration Board
VRG	:	Vaal Research Group
VTA	:	Vaal Tourism Agency
VTMA	:	Vaal Triangle Metropolitan Area
WEFA	:	Wharton Econometrics Forecasting Associates
WVMA	:	Western Vaal Metropolitan Area

CHAPTER 1: PROBLEM STATEMENT, AIMS AND OUTLINE OF THE STUDY

1.1 INTRODUCTION

This study investigates local economic development (LED) in South Africa, with specific reference to the Emfuleni Municipal Area (EMA) in Gauteng. In this chapter the design and layout of the investigation and research are described.

The problem statement, importance of the study and research questions are discussed, while the aims are formulated. The research methodology and terminology are also clarified and a chapter layout is provided.

1.2 PROBLEM STATEMENT AND IMPORTANCE OF STUDY

South Africa has been given the historic opportunity to transform local government (also called local authority or municipality in the study) to meet the challenges of the New Century. The process of developing a new policy for local government was done against the background of globalisation and the redefinition of the state, while new emphasis was placed on decentralisation.

South Africa's new Constitution (1996) and the Whitepaper on Local Government (1998), envisage a complete transformation of the local government system. Local government is a sphere of government in its own right and no longer a function of the national or provincial governments. Local government has also been given a distinctive status and role in building democracy and promoting socio-economic development (SA, 1998a:1-2).

The last phase of local government reform in the new South Africa, started with the local government elections of 5 December 2000. Building effective and efficient local governments is a key component of the country's democratic development. This sphere of government is closest to the people and affects their daily lives more directly than any other. The Department of Constitutional Development (1998b:1) describes local government as "the hands and feet" of reconstruction and development in South Africa. Local government is at the heart of the development process in South Africa.

Against this background concerning the importance of local governments in South Africa, many important issues or problems and challenges confront this third sphere of government. One of these is the challenge of LED and the role of local authorities in this regard. The responsibility for stimulating economic growth and job creation is no longer reserved for the national and provincial levels of government; rather it is a common challenge that all local authorities now must confront.

It is essential, that all local authorities develop a firm understanding of the importance of various LED issues. It is no longer the concern and problem of the person next door. By utilising the unique powers and duties of local government and working in partnership with community stakeholders, local authorities can help stimulate the economy and improve the lives of their citizens. This process is commonly known as LED (IRI & NBI, 1998:1-4).

The many definitions for LED can be summarised by especially the one of Zaaijer & Sara (1993:129), namely that it " ... is essentially a process in which local governments and/or community-based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create jobs and stimulate economic activity in an economic area".

Nel & Humphrys (1999:286-287) state, however, that LED is at the moment in a state of flux in South Africa. Many local areas and governments are just beginning to experiment with LED, and policies and strategies in this regard are often still in a preliminary phase. It is appropriate that local governments in the cities, towns and rural areas of South Africa, in collaboration with key local stakeholders, should embark on LED. The need for this is self-evident. There must be a paradigm shift away from the local governments being viewed as simply service delivery agents, to the concept of developmental local government. According to the IRI & NBI (1998:3), local authorities can and must play a central role in economic development by virtue of their powers and functions. The South African government has provided a clear sanction for local authorities to engage in LED.

The IRI & NBI (1998:30) state, that LED is important because of the following reasons.

- It creates jobs and new employment opportunities.

- It increases income levels and enables people to pay for services.
- It broadens the tax and revenue bases of a local authority.
- It builds new institutions for sustainable economic development.
- It promotes linkages between developed and under-developed areas.

It is important that all the communities in South Africa establish and promote LED and an economic development vision, as part of the broader vision of a municipality in terms of its integrated development plan (IDP). The Department of Constitutional Development (1998b:7) points out ideas such as the following with regard to a vision for LED.

- Economic growth to promote investments in jobs and new growth sectors.
- Broadening ownership to mobilise support for small business development.
- Addressing backlogs: infrastructure investment plan for basic services.
- Reducing inequality: special programmes to target poverty.
- Civic pride: community participation and partnerships.

Richards & Stetten (2000:6) state that LED is a relatively new phenomenon in the Southern African Development Community (SADC) and in South Africa. It has been broadly interpreted as involving spontaneous local initiatives, as well as defined strategies. Where appropriate, these strategies may be pursued by local authorities, non-governmental organisations (NGOs), governments, businesses and community groups. Typical LED strategies can include promotional and trade support measures, business support and infrastructure development, employment and training support, financial measures, organisational arrangements and the regulatory environment.

One of the challenges in South Africa with regard to the success of LED, is the financing of LED initiatives. Municipal budgets, grants from the national government and access to other resources, are already playing an important role in this regard. Unlike the provinces in South Africa, local government has a more substantial tax base and all the municipalities which make up the local government sphere in South Africa, in many instances generate more than 90% of their aggregate budget as own revenue. The key

issues confronting local governments are related to sustainability. A culture of non-payment has led to the accumulation of arrears and has squeezed the revenue side of municipal budgets. One of the challenges of local governments, is to improve financial management in order to ensure that budgets are adhered to (Black, Calitz & Steenekamp, 1999:320). Municipal debt is estimated at more than R20 billion in South Africa (Budget Review, 1999:109).

The amalgamation of previously divided jurisdictions has significantly increased the population which municipalities must serve, without a corresponding increase in the tax base. Combined with service backlogs, collapsed or deteriorating infrastructure, and deteriorating creditworthiness and borrowing capacity, municipalities are experiencing financial stress and in many instances, even a financial crisis. The results of the national government's monitoring exercise, "Project Viability", have confirmed a general deteriorating aggregate financial position within the local government sphere (SA, 1998a).

Another problem related to local government/municipal finance, is the uncertainty about local government within South Africa's new system of intergovernmental fiscal and financial relations ("fiscal federalism"). According to the Financial and Fiscal Commission – FFC (1997:3), the local government sphere is constitutionally entitled to an equitable share of revenue collected at national level. Grants from the national government, including the equitable share and conditional grants, comprised about 7% of the projected R58 billion budget for local government in the 1999/2000 municipal financial year. The medium term estimates provided for an increase in the allocation to local government from R5.8 billion in 1999/2000 to R6.7 billion in 2001/2002, rising to R7.7 billion in 2002/2003. The equitable share must enable local governments to provide basic services to poor households (Budget Review, 2000:164-165).

The importance of economic and fiscal aspects and issues on local government level, was also emphasized by Mr Nelson Mandela in his opening address to Parliament on 7 February 1997. He stated, " ... that insofar as local government is concerned, there is nothing as urgent and as critical as the training of councillors. Their ability to raise funds and manage them, to play their role in multi-billion rand housing and infrastructure programmes, to attract investments, to deal with the distortions of the "apartheid" era,

and to work with communities in partnership for development, are skills that should be built more intensively ... " (IRI & NBI, 1998:1).

The Whitepaper on Local Government (SA, 1998a) proposed a new framework for municipal finance which supports the developmental role of local governments. The framework should –

- address the root causes of the financial problems that municipalities face;
- balance programmes for poverty eradiction and equity with strategies to enhance growth, job creation and competitiveness; and
- empower municipalities to fulfill their constitutional mandate.

It is, therefore, necessary and important to stabilise local government finances within South Africa. Recognising the importance of a sound financial foundation for local authorities, the government has launched "Project Liquidity" to monitor the state of municipal finance and to then intervene where necessary.

Although local government receives a relatively small share of the resources allocated in the national budget, this sphere of government represents a significant part of South Africa's public finances and has important responsibilities in the delivery of basic services and also its role in LED (Budget Review, 1999:108). Healthy municipal finance is necessary for local governments to play a pivotal role in realising a better life for all in South Africa. Local authorities can face the challenge of accelerating service delivery and LED programmes and initiatives, only with a sound fiscal/financial system on local government level.

It is important to study and evaluate LED, not only in a South African context, but also on a more micro or regional level. The research area in this study will be the EMA (see section 1.6.2 for a description of this area). After a socio-economic profile and analysis of the EMA, LED in this area will be investigated and evaluated. Special attention will be given to the role of the local authority in this regard.

The Emfuleni Local Municipality (ELM) states, that the EMA economy lies in ruins, leaving too many people in poverty. Unemployment is more than 50%, higher than it has ever been. The EMA faces key challenges, which include the diversification of the

economy, the creation of an environment which is conducive to economic and tourism development and the encouragement of investment which leads to job creation and poverty alleviation. The Portfolio LED and Tourism at the ELM wants to facilitate economic development in the region and to improve the quality of life of all the inhabitants of the area (ELM, 2002a:24).

1.3 AIMS OF THE STUDY

1.3.1 GENERAL OBJECTIVE

The general objective of the study is to investigate, analyse, understand and evaluate LED in a South African context, with specific reference to the EMA.

1.3.2 SPECIFIC OBJECTIVES

The specific objectives of the study are to investigate, analyse, understand and evaluate –

- LED strategies in a South African and EMA context;
- the financing of LED in a South African and EMA context;
- the role of local authorities in LED such as the ELM; and
- economic and fiscal problems and challenges of the EMA and the ELM.

1.4 RESEARCH METHOD

The study of LED in a South African context, with specific reference to the EMA, is a literature-based research. LED in the SADC and South Africa are investigated by way of South African and various international publications. The investigation into the economic and fiscal aspects of the EMA, as well as LED strategies, will be based mainly on documentation of the ELM and on the research of the Vaal Research Group (VRG). In this regard, the research of especially Prof T.J.C. Slabbert of the North-West University (Vaal Triangle Campus) can be mentioned.

Lacking information regarding some aspects of the EMA like local government finance and LED strategies, will be acquired from the ELM and other relevant roleplayers. Some of the information and statistics will be obtained by means of interviews.

1.5 TERMINOLOGY

1.5.1 LOCAL ECONOMIC DEVELOPMENT (LED)

A summary from South African and international literature, indicates that LED is a locally-driven process, designed to identify, harness and utilise resources in order to stimulate the economy and to create new job opportunities.

LED is not one specific action or programme, it is rather the sum total of the individual contributions of a broad spectrum of the community. LED occurs when the local authority, business, labour, NGOs and most importantly, individuals, strive to improve their economic status by combining skills, resources and ideas.

1.5.2 EMFULENI MUNICIPAL AREA (EMA)

The EMA comprises the former Western Vaal Metropolitan Area (WVMA), the Vereeniging/Kopanong or Eastern Vaal Metropolitan Area – EVMA (excluding Meyerton), the "Vaal Oewer" and a portion of the Vaal River Transitional Council. The EMA, therefore, includes the following suburbs: Boipatong, Boitumelo, Bophelong, Evaton, Loch Vaal, Sebokeng, Sharpeville, Tshepiso, "Vaal Oewer", Vanderbijlpark and its suburbs, and also Vereeniging and its suburbs.

1.5.3 VAAL RESEARCH GROUP (VRG)

The VRG is an inter-university international economic research group in the so-called Vaal Triangle, which was formed in 1999. Economic researchers in the region from Vista University (Sebokeng), the Vaal Triangle Technikon (Vaal University of Technology) and the Potchefstroom University – from 2004 North-West University (Vaal Triangle Campus), are members of the VRG. The Development Research Institute of Tilburg University in the Netherlands is the international research partner of the VRG.

1.6 CHAPTER LAYOUT

Chapter 2 analyses LED in a South African context. Aspects that will be addressed, include a description of LED, the importance of LED, the role of local authorities in LED, the legal framework for LED, LED strategies and the planning and implementation of LED.

Chapter 3 offers an investigation into the financing and resources of LED within South Africa. The focus will be on all government funding for LED initiatives and to a lesser extend on private sector funding. Local government finances will also be discussed, with the emphasis on unconditional equitable share transfers and conditional infrastructure to local authorities, as well as on local government budget trends.

Chapter 4 analyses the economy and other socio-economic aspects of the EMA. Relevant aspects in this chapter will include a demographic profile of the EMA, labour aspects of the EMA, poverty analysis in the EMA, an analysis of all sectors of the EMA economy, the EMA economy in a provincial and local context, and other relevant economic aspects and trends in this area/region.

Chapter 5 analyses, investigates and evaluates LED in the EMA. The focus will be on all the LED roleplayers in the EMA. The role of the local authority is highlighted in this regard. All LED strategies and initiatives in the EMA are discussed and investigated. The financing of LED strategies is also addressed.

Conclusions and recommendations in chapter 6 will conclude the study.

1.7 SUMMARY

In this chapter the problem statement is discussed and the importance of the study is pointed out. The general and specific objectives are also articulated.

The research method and several terminologies used in this study, are clarified. Lastly, a clear and brief layout of the study is given to show all the relevant topics and aspects of research relevant to chapters two to six.

CHAPTER 2: LED WITHIN A SOUTH AFRICAN CONTEXT

2.1 INTRODUCTION

LED within a South African context is investigated in this chapter. Initially LED is defined and described and the importance of LED is pointed out, as well as the role of local authorities in this regard. The purpose of this section is to first understand LED in general, before explaining other aspects of LED in South Africa. The background and legal framework of LED in South Africa will subsequently be discussed.

Thereafter, the focus will be on LED strategies in South Africa. This will be approached from an international, SADC and a South African point of view. The planning cycle, LED planning process and the implementation of LED, will also be investigated. The focus will also be on the role of municipalities in this regard. Lastly, a summary of the chapter will be given.

2.2 UNDERSTANDING LED

2.2.1 DEFINITION OF LED

Nel & Humphrys (1999:277) define LED as the process or strategy in which locally based individuals or organisations use resources to modify or expand local economic activity to the benefit of the majority in the local community. Local initiatives may be either self-generated by community members or stimulated by external agencies such as a higher-level government.

Blakely (1989:58) avers that LED is essentially a process by which local government and/or community-based groups manage their existing resources and enter into new partnership arrangements with the private sector, or with each other, to create new jobs and to stimulate economic activity in a well-defined economic zone. The central feature in locally- orientated or -based economic development, is the emphasis on "endogenous development" policies, using the potential of local human, institutional and physical resources.

LED is an "outcome", based on local initiative and driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills, to stimulate

economic growth and development. The aim of LED is to create employment opportunities to the benefit of all local residents. LED is an ongoing process and encompasses all stakeholders in a local community involved in a number of different initiatives, aimed at addressing a variety of socio-economic needs in that community (Department of Provincial and Local Government – DPLG, 2003:1).

2.2.2 THE IMPORTANCE OF LED

According to the IRI & NBI (1998:2&3) and Nel (1998:153&154), it is especially important for local governments in South Africa to promote LED, the reason being that LED –

- is one of the logic ways in which to address the "apartheid" legacy – to help address socio-economic inequalities, promote urban integration, job creation and service provision;
- can contribute to local employment, empowerment and wealth generation;
- can directly, or indirectly, promote economic development and empowerment of community groupings;
- increases income levels and enables people to pay for services. It broadens the tax and revenue base of a local authority;
- enables the local authority to provide more and better services and facilities to the local citizens;
- builds new institutions for sustainable economic development and promotes linkages between developed and under-developed areas;
- can be a key component of, and a supplement to, a broader process of regional and national development and it can assist with the attainment of macro-economic policy objectives; and
- can be a "grass roots" complement to "top-down" national development.

2.2.3 LOCAL GOVERNMENT'S ROLE IN LED

Local authorities can and must play a central role in LED by virtue of their powers and functions on the local level. Municipalities employ people from the local area, purchase

goods and services, develop the infrastructure, regulate the development of land, influence the economic environment of the locality through policies and by-laws they pass and the programmes they support. All of these activities have an impact on the local economy.

Local government's developmental mandate from the South African Constitution (1996) and the White Paper on Local Government (SA, 1998a), encourages municipalities to seek to address poverty, unemployment and redistribution in their local areas. They are also required to participate in various economic development programmes of provincial and national governments.

Municipalities can promote LED in their areas in a number of different ways. They assume different roles at different times and they may play a more direct role in some LED initiatives than in others. Nearly every effort to develop a local economy, will require some input, participation and support from local government. Table 2.1 provides some examples of the different, or combination of roles that municipalities can play in LED.

Table 2.1: Roles of local authorities in LED

Municipal role	Explanation of municipal role
Co-ordinator	In this role the municipality acts as a co-ordinating body. An important tool for co-ordination, is the IDP, which draws together the developmental objectives, priorities, strategies and programmes of a municipality. The IDP can be used to ensure that LED initiatives are co-ordinated with other municipal programmes, and appropriately linked to national and provincial initiatives.
Facilitator	In this role the municipality improves the investment environment in the area. For example, the municipality may streamline the development process, or improve planning procedures and zoning regulations.
Stimulator	In this role municipalities stimulate business creation or expansion. For example, the municipality may provide premises at low rent to small, medium and micro enterprises (SMMEs), or compile brochures on local investment opportunities, or promote a particular tourism theme or activity in a key venue.
Entrepreneur or Developer	In this role the municipality takes on the full responsibility of operating a business enterprise. A municipality can also enter into a joint venture partnership with the private sector or a NGO.

Source: DPLG, 2003:2

2.3 BACKGROUND AND LEGAL FRAMEWORK OF LED IN SOUTH AFRICA

2.3.1 HISTORY AND BACKGROUND OF LED

According to the World Bank (2001), it has become clear, that since the 1960s, LED worldwide passed through three broad stages or so-called waves of development. In these waves LED practitioners have developed a better understanding of successful and unsuccessful programmes. Today LED is in its third wave. Although LED has moved through each of these waves, elements of each wave are still practised today.

The first wave was from the 1960s to the early 1980s. During this period, the LED focus was on the attraction of manufacturing investment, hard infrastructure investment and attracting outside investment – especially foreign direct investment (FDI).

In the second wave period, from the 1980s to the mid 1990s, the focus moved towards the retention and growing of existing local businesses, with an emphasis on inward investment attraction. To achieve this, cities/towns provided direct payments to businesses and also advice, training and technical support for small and medium-sized firms.

The late 1990s and onward can be classified as the third wave. During this wave of LED, greater focus is placed on soft infrastructure investments, public-private partnerships (PPPs), networking and making the entire business environment more conducive to business (World Bank, 2001).

Nel & Humphrys (1999:277) state that the commitment of the new government of South Africa after 1994 to promote LED as the solution for its most disadvantaged areas, has occurred in the "post-Fordist" era, when thinking about development is in a state of flux. During the middle third of the twentieth century, when a "Fordist regime of accumulation" was dominant, policies and strategies for the economic development of disadvantaged areas became much clearer.

Keynesian demand management and welfare policies which helped to redistribute wealth, were part of the "Fordist regime of accumulation". "Top-down" government intervention was accepted as the required route to achieve better spatial distribution of economic growth and development within nations. The move to "post-Fordism" became apparent in the 1970s when global economic crises and falling profits led to the adoption of cost-cutting strategies. Wealth redistribution through state welfare programmes came under pressure. Development took on a mosaic pattern, with characteristics differing from place to place, the opposite of the "Fordist" conformity which had previously prevailed (Nel & Humphrys, 1999:278).

Such changes have impacted profoundly on local areas, their growth potential and, by implication, on LED. Such growth potential can focus either on localised or endogenous development, or its increasingly common association with the notion of local areas seeking to enhance their growth potential through participation in the global economy. Such trends parallel the recognition that LED, in recent years, is increasingly focussing on issues such as regional specialisation and niche markets. Shifts in society and the strengthening of the desire by those better off to retain and increase their advantages,

were identified at the beginning of the 1990s. Governments began to look at the encouragement of and support for "bottom-up" development and local initiatives towards achieving a better distribution of economic development. This view was all the more attractive, since it was a relatively cheap action and seemed to facilitate a reduction in public expenditure (Nel & Humphrys, 1999:277-279).

The potential of LED has other attractions. Development based on self-help, can achieve a number of economic and social objectives. The use of spare economic capacity in available labour or under-utilised resources, creates additional wealth, which expands the local economy to the benefit of the whole nation. At the same time, the individuals involved, receive a boost to their standards of living and quality of life while gaining in self-esteem and personal development. Multiplier effects ensure that at least some of the additional wealth created, spreads through the local economy. In South Africa, previous governments had little interest in promoting LED in favour of the disenfranchised section of the population. The ANC government formulated such LED policies for the first time in the late 1990s (Nel & Humphrys, 1999:277-279).

Richards & Stetten (2000:11) state that after 1994, and to be more specific, by 1998, the South African government had in terms of LED done little more than constitutionally mandate local government to promote economic and social development. It is only more recently that various local authorities, community groups and NGOs are pursuing LED. A range of new government policies support LED. In addition, NGOs are playing a key role as development agencies promoting LED in various towns and regions. In the Western Cape, Wesgro, an independent body, has been established to promote the interests of the region. A wide range of community-based activities is another contemporary focus.

2.3.2 THE LEGAL FRAMEWORK FOR LED IN SOUTH AFRICA

Local government has been described as the "hands and feet" of reconstruction and development in South Africa. It is at the heart of the development process in this country. Increasing emphasis is, therefore, being placed on LED by the South African government, given the paradigm shift away from local government being viewed as simply delivery agents to the concept of developmental local government. The sustainable LED objectives are all consistent with South Africa's guiding policy

mandates. South African policy and legislative initiatives clearly provide a sanction for LED. Some of the more important documents in this regard include the following (Nel & Humphrys, 1999:155&156 and IRI & NBI, 1998:52-55).

- The Local Government Transition Act 200 of 1993 (LGTA) and the Amendment Act of 1996 require municipalities to promote economic and social development. Metropolitan areas are empowered to promote integrated economic development. The LGTA requires that local authorities determine, formulate and implement an IDP. The IDP is a general framework under which all planning for key social, economic and environmental sectors falls. The new IDP planning scheme requires a paradigm shift in how local authorities approach planning and economic development.
- The vision and objectives associated with LED, can also be found in the 1994 Reconstruction and Development Programme (RDP). The RDP insisted, that all spheres of government establish " ... a co-ordinated and coherent development strategy".
- The Development Facilitation Act – DFA (Act 67 of 1995). The clauses and provisions of this Act, allow for actions which can facilitate development. It empowers municipalities to establish statutory land development objectives (LDOs), which set out a clear approach to land development for each locality.
- The Urban Development Strategy (1995). In the foreword to this document, President Mandela called on urban residents to build their local authorities and promote economic development.
- The Constitution (Act 108 of 1996) of South Africa (especially 152c and 153a) states, that a local government must give priority to the basic needs of the community and should promote social and economic development of the community.
- The Growth, Employment and Redistribution (GEAR) document and strategy of the ANC government in 1996, offered several objectives that relate to LED. It is mentioned in the document, that there is more scope for increased employment at local government level, associated with social and infrastructural development projects.

- The Rural Development Framework (1997) stresses the success which has been achieved through local level negotiations in the country and identifies LED as a way forward for local governments.
- The Greenpaper on Local Government (1997) avers that LED is not something separate form the daily work of a municipality. It does not require a department of its own. Rather, all the activities of a local government need to promote economic growth. The overriding economic challenge for South African local authorities, is inequality and poverty – which can and should be addressed through all the functions of the municipality.
- The Whitepaper on Local Government (1998) argues, that developmental local government is local government committed to working with citizens and groups within the community in order to find sustainable ways to meet their social, economic and material needs and to improve the quality of their lives. LED is identified as one of four developmental outcomes of local government.

2.4 LED STRATEGIES

2.4.1 INTERNATIONAL APPROACHES TO LED

A number of approaches to economic development have been taken by municipalities around the world. Each rests on particular assumptions about local economies and the impact of local authorities therein. Six key approaches can be distinguished (Department of Constitutional Development, 1998b:8&9).

Traditional approaches assert that the key to prosperity is attracting investment (primarily manufacturing), through concessions such as tax breaks, cheap land and even direct financial rewards, in return for locating in an area. The argument is that investment creates jobs and provides taxes, which can be used by the local government for service provision. Attempts to attract tourists and other forms of economic activity and funding, such as government and financial institutions and spending on national social programmes, can also be part of this approach.

Entrepreneurial-competitive strategies emphasise the importance of local comparative advantages and small businesses in job creation. Local authorities play an important

role in identifying growth sectors and in supporting businesses through research, consultancy, premises, technical infrastructure and even loans or grants.

The Department of Constitutional Development (1998:8) states that urban efficiency is another LED approach where local authorities should raise urban productivity, in part by lowering the costs of living and doing business in the locality. This is best achieved by cutting taxes and service charges and by privatising services if and where possible.

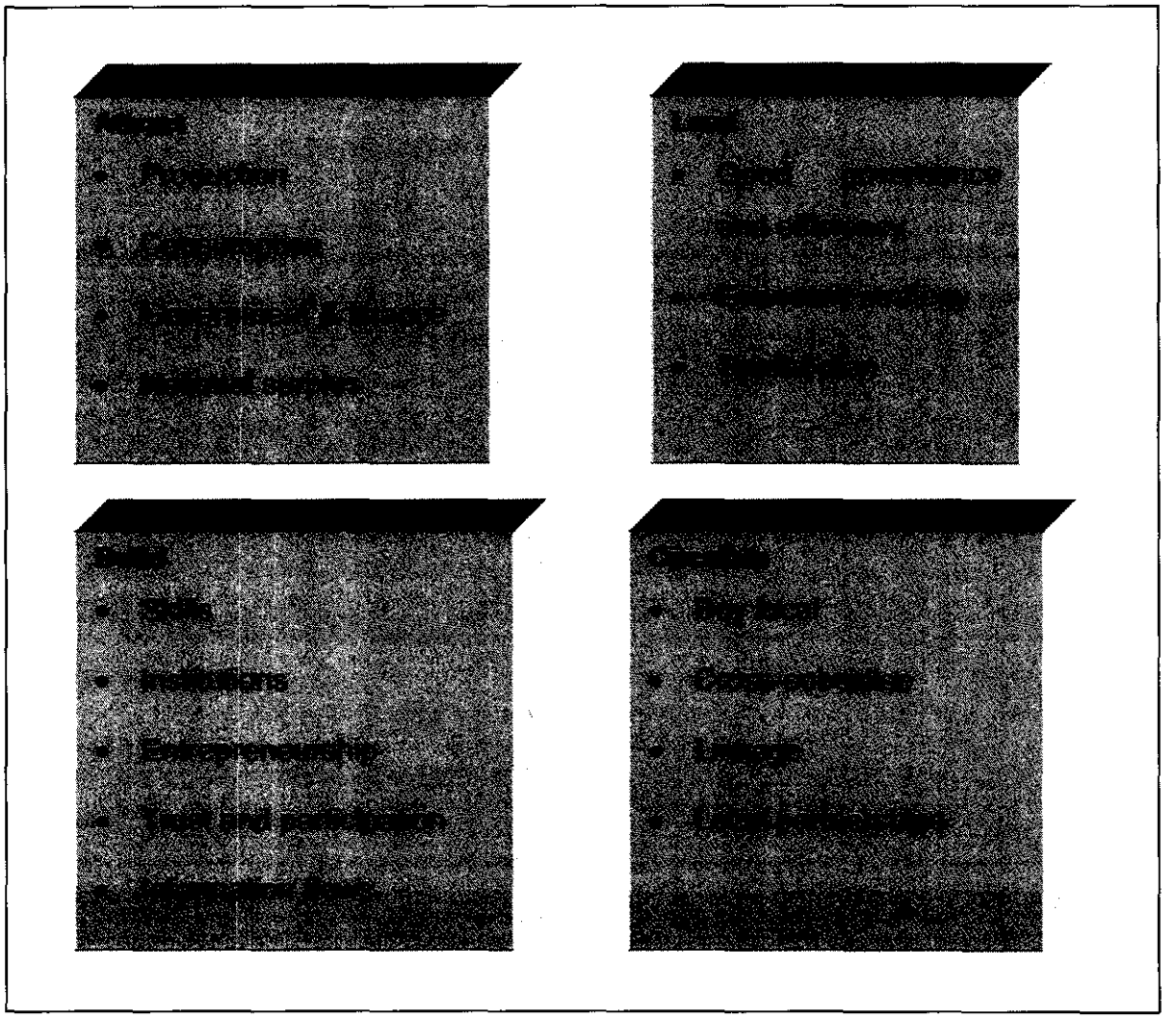
Human resource development is also identified as a key focus for LED strategies. The argument is that low skill levels, especially amongst the poor, influence investment negatively. Local authorities must support the establishment of local training bodies and require that firms provide a minimum amount of training to their employees.

Community-based strategies emphasise the importance of working directly with low-income communities and their organisations. Community development trusts (CDTs) and worker- or community-controlled enterprises, such as local credit unions or development corporations, are key features of this approach.

Progressive approaches explicitly aim to link profitable growth and redistributive development. An example of a progressive approach, is a requirement that financial institutions opening a branch in an area, must invest a certain percentage of their turnover in local small businesses (Department of Constitutional Development, 1998b:9).

It is important in practice to achieve the right balance between these LED approaches based on every community's unique circumstances. Figure 2.1 shows four conceptual building blocks for LED which might be used together.

Figure 2.1: Building blocks for LED



Source: Department of Constitutional Development, 1998b:9

2.4.2 LED IN THE SADC

LED is a relatively new phenomenon in the SADC countries. LED activities normally range from local government and community initiatives to small business support, decentralisation programmes and national strategies such as investment and export promotion. Examples of LED initiatives in some of the SADC countries include the following (Richards & Stetten, 2000:6).

- Botswana's local authorities encourage development at local level by identifying district development plans involving all the major local stakeholders. The Selibe-Phikwe Regional Development Programme is an example of this approach. LED

support measures include a National Micro Credit Scheme which provides financial support to SMMEs.

- Since independence, the Lesotho government has actively pursued a range of local and regional community-based strategies specifically targeting small businesses and the agricultural sector. LED support measures include the Basotho Enterprise Development Corporation Act of 1984, which provides support for small businesses.
- Development policy in Malawi has focussed on poverty alleviation, industrial development, economic liberalisation and improving public participation. LED support measures include the Local Government Act which is a key measure encouraging decentralisation, democracy, accountability and the improvement of conditions at local level through LED-type strategies.
- Mauritius has made significant economic progress in recent years, largely due to its facilitation of private sector development, export-orientated industrialisation and the establishment of an Export Processing Zone (EPZ) in 1976. LED support measures include the Small and Medium Industries Development Organisation and the Mauritius Export Development and Investment Authority.
- Many NGOs in Namibia are active in the areas of advocacy, small business support and community development. Other noteworthy LED activities include the encouragement of partnerships and the decentralisation of low-cost housing provision to local authorities. LED support measures include a decentralisation policy that seeks to transfer authority from central to regional and local authorities. Namibia also has a well-established EPZ policy.
- Swaziland has a long tradition of supporting community groups and co-operatives. In recent years, local authorities have become more active in terms of LED. Besides this, NGOs support numerous self-help projects. LED support measures include the Urban Government Policy of 1996 that encourages local governments to undertake land and residential development, support markets, provide information and encourage PPPs.
- LED in Tanzania focusses on the philosophy of self-reliance and the use of available resources to raise income and improve standards of living. Given the fact that most

of the country's people live in the rural areas, rural development is a key focus. LED support measures include regional decentralisation and establishing regional consultative committees that advise local governments on economic and development affairs.

- Since 1991 Zambia has actively pursued policies encouraging the development of the private sector. They are designed to encourage the involvement of all key stakeholders. Given the high levels of poverty, the government is also trying to address these issues by collaborating with NGOs and community groups. LED support measures include private and community participation which is encouraged at all levels, while a decentralisation policy is being planned.
- In Zimbabwe LED is pursued by various local authorities and is encouraged by the government via a range of programmes, including tax concessions, incentives, EPZs and support for PPPs. LED support measures include the 1996 EPZ Act that has encouraged the export industry and numerous financial and related institutions which are supporting small businesses.

LED, in various forms, is clearly on the development agenda of South Africa's neighbouring countries. Common strategies in SADC countries (including South Africa) include for example, urban policy reform and decentralisation, local government-driven LED, small business support, informal sector support and also community groups and co-operatives.

2.4.3 LED STRATEGIES IN SOUTH AFRICA

LED support measures in South Africa include the following (Richards & Stetten, 2000:11&12).

- Among measures encouraging LED by local governments, are the 1996 Constitution, the 1996 LGTA and the 1998 Local Government White Paper, as discussed in section 2.3.2.
- Many of the major metropolitan areas and some of the smaller local authorities have established LED units. In Durban, Pretoria and Cape Town these units are helping to develop informal, small and large businesses, provide information and attract investments.

- LED is implicit in the IDP process undertaken by all local authorities. The DPLG supports LED and oversees limited national funding for local authorities.
- The Department of Trade and Industry (DTI) and related agencies support small businesses by providing training and advice.
- At a broader level, spatial development initiatives will encourage LED at localities in identified growth corridors.
- Local business service centres (LBSCs) have been established at the local level to promote small business interests.
- Numerous Ministries, including Public Works, Agriculture, Welfare and Labour, are administering programmes that impact on local-level development.

Richards & Stetten (2000:6&7) state that a more common LED approaches and strategies in the world and also in South Africa, that may be pursued by local authorities, NGOs, governments, businesses and community groups in South Africa include the following.

- Promotional and trade support measures like investment attraction, export promotion and tourist promotion.
- Business support and infrastructure development like partnership arrangements for business development and infrastructure delivery, business support of particularly small businesses, one-stop shop facilities, privatisation and also support for the informal sector and housing programmes.
- Employment and training support like public work programmes, skills development, training and employment centres.
- Financial measures like tax and rates abatements, local procurement, provision of incentives, loan guarantees and revolving loan funds.
- Organisational arrangements like the encouragement of partnerships and NGO activity and creating community development corporations and development companies.

- Regulatory environments like joint ventures/partnerships, the promotion of agriculture, small business, the informal sector and large business support and also housing and infrastructure programmes.

The DPLG (2000b:3-8) states that international and South African experience show that roleplayers in the local economy, and especially municipalities, have developed a wide range of strategies to promote the development of the local economy. Common strategies in this regard include industrial recruitment and place marketing, SMME promotion and support, community economic development, export promotion and international trade and also business retention and expansion.

2.4.3.1 Industrial recruitment and place marketing

Place marketing means promoting and advertising the local area, so that people, businesses and industries see the area as a desirable place to visit, live and work in. Industrial recruitment means attracting new industries to the local area. This creates new job opportunities for local residents and increases the local tax base (DPLG, 2000b:3&4).

Industrial recruitment and place marketing are sometimes separated as two different strategies. However, these strategies are closely linked. For example, a municipality may offer tax incentives as part of its industrial recruitment strategy, to attract new firms and industries to locate in the area. It is likely that the municipality will advertise not only these incentives, but also the other attractions of the area, such as a good infrastructure, a pool of labour skills, available amenities and entertainment. In other words, the municipality's industrial recruitment strategy will be coupled to its place marketing strategy.

Industrial recruitment strategies assume that business and industry locate in areas where production costs are lower. Companies will also consider factors such as whether there is a local market for their products and whether the area offers good infrastructure and services. These factors also affect the total cost of making and selling a product. International research shows, that companies are also increasingly weighting social and environmental considerations when they choose a location (DPLG, 2003:37).

Place marketing has, therefore, become an important way of distinguishing between local areas, and ensuring that companies and individuals are aware of the positive aspects and attributes of a city, town or rural area. For example, place marketing strategies could emphasise the benefits of a rural lifestyle in a healthy environment, or focus on the cultural and entertainment opportunities offered by a city's art galleries, exhibition spaces, clubs and music venues (DPLG, 2003:38).

Municipalities can use a range of instruments to implement their industrial recruitment and place marketing strategies. Place marketing campaigns can include web sites on the internet, brochures, information desks and advertising on radio and television. Hosting sporting and cultural events, is also a way of drawing attention to the location (DPLG, 2003:38).

Rogerson (1999:38) states that with regard to place marketing, one of the most active municipalities in the past was Springs, which is situated on the East Rand. Using both the radio and print media, Springs has embarked on a sustained marketing campaign to bring the town to the notice of potential investors and to increase awareness of investment opportunities.

According to the DPLG (2003:38) internationally, municipalities have developed and marketed a range of incentives which aim to attract new businesses and industries to their areas. These include tax incentives, loan incentives, shared equity in projects, traditional land incentives (e.g. land acquisition, clearing and sale), land support (e.g. water and sewer infrastructure), transportation (e.g. improved streets and improved parking), and services (e.g. improved public safety).

In South Africa, the tax incentives offered by municipalities focus on land rates and tax rebates, as the law does not allow municipalities to provide any other tax incentives. However, national government offers a wide range of financial tax incentives, which are provided and administered through the DTI. Municipalities can benefit by linking with these national programmes which offer special incentives to business and industry. For example, the DTI has initiated a number of Spatial Development Incentives (SDIs) and Special Economic Zones (SEZs). These aim at concentrating and revitalising economic activity in particular areas through the provision of incentives such as cheap facilities

and public utilities, access to labour, raw materials and mineral reserves and proximity to markets and transport facilities (DPLG, 2000b:5).

2.4.3.2 SMME promotion and support

Many LED initiatives focus on providing support to SMMEs. This strategy is often used to create employment opportunities. The DPLG (2003:39) states that a global decline in the number of jobs created by large manufacturing industries has occurred, with the result that municipalities have focussed on developing small businesses as a way of creating new job opportunities.

The potential for job creation through SMME development is receiving considerable attention in South Africa. National government, through the DTI, has adopted a range of policies to promote the development of SMMEs. Several programmes have been put in place to support small business by facilitating access to finance, training and development, research and information, markets and linkages, incentives and new technology (IRI & NBI, 1998:8).

Whilst these national programmes provide a valuable support base for SMME assistance, local authorities can help ensure that local businesses have access to these resources and are supported by an enabling local policy environment. Local authorities can achieve these objectives by using their resources to provide information, establish LBSCs, create a regulatory environment suitable for SMME development, reform tender processes and provide public facilities for small business incubators and other support projects. By pursuing these initiatives, local authorities can make a contribution to job creation in their communities (IRI & NBI, 1998:8).

Local businesses constantly need information and action from local authorities on a wide range of issues including licensing, tendering, rates, permits, zoning and building approvals. Long delays and confusing procedures associated with these processes can create difficult barriers. One of the most effective ways in which local authorities can support both small and big businesses, is to establish a central information centre that is the key contact point between all types of businesses and the local authority. One-stop shops or centres simplify the contacts that businesses need to have with government, by streamlining and expediting approval processes and other procedures.

Another highly effective way in which local authorities can assist SMMEs, is by working with stakeholders to establish LBSCs. The failure rate among new and small firms, is substantial. The need, therefore, for management and business training, counselling, research and other forms of support, is critical. LBSCs are community resource centres which provide this service to help small businesses get on their feet and eventually graduate into formal business enterprises. Since it first opened in 1986, the Empangeni Business Advice Centre (BAC) has played a pioneering role in the development of emerging businesses and it is one of the first LBSCs to become fully accredited by the DTI (IRI & NBI, 1998:9).

2.4.3.3 Community economic development

Community economic development is based on the concept of developing community self-reliance through human resource development and skills enhancement. The central objective of this strategy is to alleviate poverty, by improving the capabilities of disadvantaged communities in order to create sustainable livelihoods for themselves (DPLG, 2000b:5).

Community economic development focusses on combining employment training, human services and enterprise development so as to enhance access to and the creation of jobs, careers and self-sufficiency for disadvantaged communities. CASE (2001:25) states, that this strategy aims to equip people in disadvantaged communities to take advantage of existing job opportunities, and to create new job prospects for these people through the opening of small businesses and enterprises.

Instruments that are often used to implement community economic development strategies, include (DPLG, 2000b:6) –

- employment brokering – which means connecting people who need jobs with available job opportunities;
- sectoral interventions aimed at identifying niches in the local economy that offer access to low and moderate-income people – in other words, a focus on supporting those industries and sectors which are most likely to provide job opportunities for poor households and individuals; and

- the identification of enterprises that can be established under community control where municipalities can also assist community groups to establish their own enterprises and businesses, which will generate livelihoods for local people.

2.4.3.4 Export promotion and international trade

Municipalities, particularly those in urban areas, are increasingly basing their LED strategies on export promotion and international trade. We live in the era of globalisation and international competition. This means, that companies compete with one another on a global basis. For example, when shopping for a television set at a local shop and faced with a choice from televisions made in ten different countries. South African companies that make televisions, must therefore, compete against a range of international companies producing the same product (DPLG, 2003:40).

To be able to compete internationally, local companies need to be able to develop products more cheaply than elsewhere, or to develop better products, or to offer products which cannot be sourced from anywhere else. Local companies also need to establish a presence in international markets. They need to make sure that consumers in other countries have the option of buying their product at the local shop.

Municipalities can help to make local companies more competitive, by targeting sectors in which they have a comparative and competitive advantage, and providing support to these sectors so that they can compete internationally. In other words, municipalities can assess the global market and see where there are opportunities to export products and services that can be produced locally at a competitive price. Municipalities can then provide targeted support to local businesses to help them produce competitive products and services, and to export them to foreign markets (DPLG, 2000b:6).

Export promotion strategies often involve higher level services and products, for example financial and communication services, high-technology services and products. These sectors offer most opportunities for export-led growth. The DPLG (2003:40) states, that a typical way in which municipalities can promote exports, is the development of research and science parks. Research and science parks bring companies together in a single space that offer similar services and are developing

similar products. This allows for the cross-fertilisation of ideas, as well as enabling the sharing of skills and technology between companies.

For example, the Capricorn Park in Cape Town aims to create a network of linkages to support research and development. The elegant brochure promoting Capricorn Park states that " ... the innovative and interactive cluster will give companies the opportunity to network extensively and thus develop a cutting edge on global competitiveness". Although Capricorn Park is promoted as part of a regional economic development strategy by the Western Cape Trade and Investment Promotion Agency, it is indicative of the type of initiatives municipalities interact with, or that they may want to facilitate themselves more directly as part of an LED strategy (DPLG, 2003:40).

This idea of linking companies that provide similar products and services, is characteristic of export-promotion strategies. Many cities are attempting to create an "island of innovation", where firms that produce hi-tech products and services locate in close proximity to one another, and produce new export products. This strategy is most common in sectors such as aerospace, electronics, pharmaceuticals, chemicals, instruments, software and business services industries (DPLG, 2003:40&41).

Municipalities can also promote local products for exports by attending trade fairs and marketing local products and services. In less than 30 years, Richards Bay has been transformed from a sleepy fishing village into one of the most dynamic commercial centres on the African continent. The municipality utilised strategies such as an investor-friendly approach, customer services, negotiation skills, marketing and post-investment services, to develop competitive advantages (IRI & NBI, 1998:28).

2.4.3.5 Business retention, expansion and attraction

Business retention and expansion strategies refer to the measures that municipalities can take to ensure that firms within their area do not leave for a seemingly more attractive location. Business retention and expansion is similar to industrial recruitment, in that the same measures which ensure that existing firms do not need to seek premises elsewhere, will help to attract new firms to the area (DPLG, 2003:41).

One of the most important ways in which municipalities can ensure that an existing business is retained, is by the provision of adequate infrastructure and services. Where

the municipality does not provide adequate infrastructure, businesses may be tempted to locate to other areas which offer better infrastructure and services. The streamlining of internal municipal functions, such as building-plan approvals, is also important. The efficiency of the municipality in a particular location often influences decisions about where to locate a business. In extreme cases, an inefficient municipality may even drive existing businesses away (DPLG, 2000b:7).

By helping to attract new businesses, local authorities help to create jobs and increase the rates base. One of the most common mechanisms used by cities all over the world to attract investment or encourage business expansion, is to give concessions, including substantial tax incentives to potential investors. Currently, South African local authorities are allowed to provide incentives, but must first obtain approval from the Premier of a province (IRI & NBI, 1998:25).

2.4.3.6 Other LED strategies

The five categories of strategies outlined above, are not mutually exclusive. In practice, there is a large overlap between the various strategies and instruments. For example, SMME development can be promoted within the export promotion strategy. Or, municipalities could choose to target support to SMMEs, which are able to develop products for export purposes. Similarly, community economic development strategies can be enhanced by industrial recruitment and place marketing instruments. It is also important to remember that within each category of LED strategy, there is a wide range of LED instruments.

The IRI & NBI (1998:7-37) refer to nine LED tools and strategies that local authorities use or could use in South Africa. SMME development and business retention, expansion and attraction were already discussed above. The other seven tools and strategies which are sometimes related to a strategy already mentioned, are as follows.

- Development of creative and effective regulations and by-laws.
- Local authorities can play an active role in encouraging growth and development by creatively utilising the land, buildings and other assets owned by them. Many local governments can for example, transform disused warehouses or other buildings into small business incubators or "hives".

- Municipalities in South Africa, like many municipalities around the world, are faced with increasing demands for improved services, fiscal constraints and competition for resources. Many successful local authorities are responding to this challenge by exploring PPPs as ways to improve the delivery of services. The main approaches to PPPs include service and management contracts, leasing, concessions and privatisation.
- Human resource development is pivotal to economic success. Efforts to develop the human resource base of a community should be designed to provide citizens with the skills they need and information they require to find and secure employment. The establishment of the Thekwini Business Development Centre in 1997 in the Durban area is an example of an institution helping city residents to build skills. This can lead to sustainable small businesses.
- Local authorities could collaborate with local promotion groups so as to establish an effective marketing strategy. They can also appoint marketing consultants or utilise the services of local publicity associations and tourism boards.
- Regional linkages. By developing co-ordinated initiatives, such as marketing strategies, tourism development or infrastructure plans with neighbouring localities, local authorities can often magnify the impact of their own efforts while reducing costs. The Midlands Meander in KwaZulu-Natal is a good example of this LED strategy.
- Plugging the leaks. Local authorities can help to limit money flowing/leaking out of a region. "Buying local" could have a significant impact in a community at no additional cost. Action steps for plugging the leaks in a local economy, can include the determination of local buying patterns, increasing public awareness, and periodic markets. Once a month, on pension day, a market is held in the villages of Mgwali and Wartburg near Stutterheim in the Eastern Cape. It is funded by the Independent Development Trust (IDT) and promoted by the Stutterheim Development Foundation. Cultural events are held at the same time, making market days important social occasions in the life of these communities.

2.4.4 LESSONS FROM LED CASE STUDIES IN SOUTH AFRICA

There are many examples and case studies in South Africa with regard to LED strategies. Most South African literature refer to LED success stories like Stutterheim, Empangeni, Cape Town, Benoni, Richards Bay, Durban, Pietermaritzburg, the Midlands Meander, Newcastle, Pinetown, Nelspruit, Stilbaai, Nzhelele/Tshipise, Lamberts Bay, Welkom, Seymour and Greater Johannesburg.

However, high economic growth in three case studies, namely Pinetown, Richards Bay and Nelspruit, did not result from any single LED intervention. Perhaps the key lesson from the Pinetown case study is that good governance makes a difference. Municipalities can help to realise investment opportunities through deals with private investors and by providing interested investors with a personalised and efficient service. Good relationships and open channels of communication make the local area a far more attractive location for business and industry (DPLG, 2000c:6).

The Richards Bay case study shows that the performance of a local economy relies heavily on the performance of firms. Responsive, functional and effective local governments can facilitate the good performance of firms. The Nelspruit case study shows that commercial property development can be a major driver of economic growth. The case study also shows that the Nelspruit Local Council has the potential to be more creative in their design of their LED strategies. It is critical to remember that economic growth is not the only objective of LED. It is equally important to ensure that objectives such as basic needs, redistribution and poverty alleviation are met (DPLG, 2003:72-77).

The case studies of Stilbaai, Nzhelele/Tshipise, Lamberts Bay, Welkom and Seymour, show how municipalities and other key roleplayers have responded to economic decline. The LED interventions and lessons for LED is noteworthy. The Nzhelele/Tshipise case study shows that local communities can organise themselves and identify viable strategies (DPLG, 2003:78-90).

The Stilbaai case study shows, that private sector involvement with a LED strategy is critical. The Lamberts Bay municipality faced the challenge by drawing in the private sector and finding external support and funding to supplement its own resources for

LED. The Welkom case study points to the need for a structure to co-ordinate an overall LED programme for the area, as well as to fundraise for LED activities. It is clear from the Seymour case study, that the role municipalities can play in LED in rural areas, is limited to only facilitatory and co-ordination roles (DPLG, 2003:78-90).

2.4.5 THE STATUS OF LED IN SOUTH AFRICA

In spite of the above-mentioned LED strategies and case studies in South Africa, LED in South Africa is still in its infancy. Many local areas and governments are just beginning to experiment with LED, and policies and strategies are often in a preliminary phase.

A modest number of local authorities are already participating in the development process. The most important areas of involvement include marketing and the supply of relevant information. Only some local authorities are actively involved in job creation and the establishment of industries and tourism. Generally, specific plans or strategies to promote economic development, occur less frequently. Table 2.2 gives an indication of the status of LED strategies in a South African context (Nel, 1998:159-161). It can be concluded from Table 2.2, that trade/promotion/development LED strategies are popular in a South African context. Strategies like marketing, attracting investment, tourism promotion and the use of internet resources deserve special mention in this regard.

Table 2.2: Local government LED strategies: international experience and South African realities and options

International LED Strategies	Status in South Africa
Trade/promotion/development measures	
Information provision/collection	✓
marketing and promotion	✓
trade mission	✓
attracting investment	✓/?
World Trade Centres	✓
export promotion	✓/?
tourism promotion	✓
international tourism	✓
international development planning	✓
investment	×
small business support	?
business incubators	?
provision of workspace	?
regional co-operation	?

International LED Strategies	Status in South Africa
sister cities	✓
links with tertiary institutions	?
Conference/business centers	?
use of internet resources	✓
public works	?
Privatisation	?
Property/development	
capital improvements (multi-year funding)	?
strategic planning	✓
urban redevelopment	?
infrastructure development	✓
infrastructure as in-kind development	?
industrial parks	✓
land annexation	×
foreign trade zones	×
enterprise zones	×/?SBDC
land acquisition	× hives
land banking	×
land sales	×
land donation	✓
industrial development authorities	?
tourism authorities	✓
use of vacant council property	✓/?
Training	
links with tertiary institutions	×
job training	×
youth internships	×
skills development	?
Financial measures	
tax/rates abatements	?
local procurement	✓
self-funding service enterprises	×
revenue bonds	×
tax credits	×
revolving loan funds	×
loans to firms	×/?
loan guarantees	×
interest subsidies	×
venture capital funds	×
cash flow participation	×
equity participation	×
earmarking tax revenues for economic development	✓

International LED Strategies	Status in South Africa
pension fund investment	✓
raising loans	?
Incentives	?/on services
Organisational arrangements	
Community development corporations	?
local development corporations	?
employment bureau	×
public-private partnerships	?
Regulations/support	
relaxation of regulations	? – DFA?
proactive planning	?
streamlining of permits	?
one-stop shop	?
provision of an enabling environment	✓
strategic animators	?
regulating the informal sector	✓

SBDC – Small Business Development Corporation
DFA – Development Facilitation Act
✓ – currently being applied in South Africa
? – can be applied reasonably easily/is being applied in certain areas/new laws will probably allow
× – can't be applied yet and/or status unclear

Source: Nel, 1998:159-161

2.5 PLANNING AND IMPLEMENTATION OF LED

2.5.1 WHAT TO TAKE INTO ACCOUNT IN THE PLANNING PROCESS

Planning for and implementation of LED should be seen as a flexible process continuously influenced by local conditions. Community participation is fundamental. Some strategies will require much planning and co-ordination among various stakeholders, others will not. The IRI & NBI (1998:40&41) outline the following aspects or factors that must be taken into account with the planning process of LED.

- Avoid letting political differences and ambitions stand in the way of progress.
- Avoid getting stuck on procedural matters such as writing a constitution or setting up a formal structure.

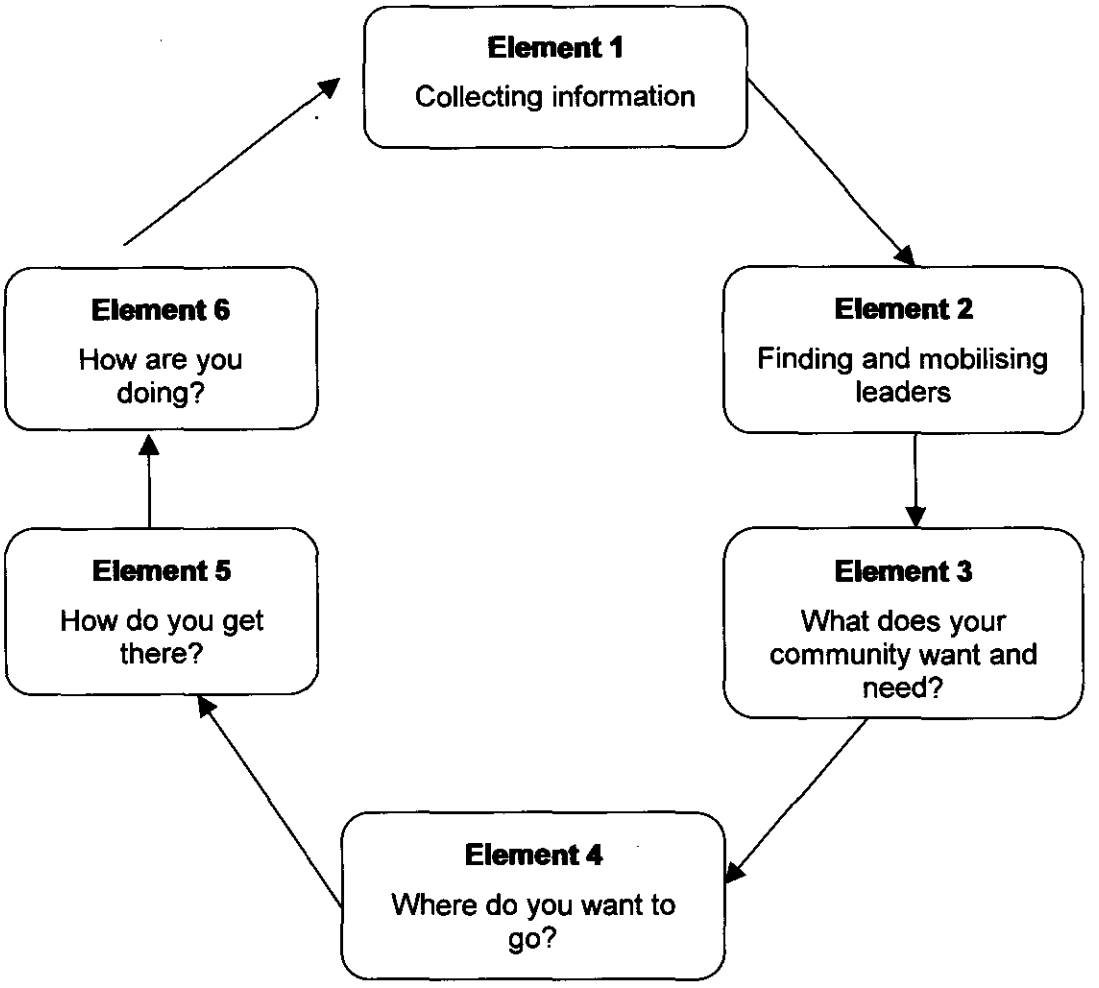
- The local authority and community must have a core of capable and respected leaders that are prepared to commit time, priority and belief to the notion of economic development.
- It is important to get an early buy-in from all key stakeholders.
- The achievement of early success is essential towards building momentum and maintaining commitment to a strategy.
- A holistic approach must be followed where the entire locality is seen as one entity.
- Develop "creative" local strategies because national and provincial programmes are not the only solution to a community's problems.
- Avoid a narrow LED focus only on job creation. Don't overlook other issues in economic development planning, such as human resources for example.
- Be sure the LED strategies make sense for the locality. Don't always follow the fashion of other local authorities.
- Accommodate the youth and women in the LED planning.
- People with economic knowledge and expertise, must be involved in the LED planning process in order to ensure that practical approaches are applied.

2.5.2 THE PLANNING CYCLE

LED is not a specific programme. It is rather a series of policies and activities that contribute to a healthy economic environment. LED involves bringing community roleplayers together to work jointly towards economic growth, providing sustainable employment and improving the overall quality of lives. Planning is not the final goal and one must not delay progress for the sake of progress.

Figure 2.2 is an indication of how to use the different elements of a planning cycle for purposes of LED.

Figure 2.2: The planning cycle of LED



Source: IRI & NBI, 1998:47

The IRI & NBI (1998:42) state that the first element of the LED planning cycle is for the local authority to find information about the local economy. Examples of information that local authorities should obtain, include demographic trends, physical and infrastructure characteristics, economic data and employment figures. This can be found in local departments, NGOs, educational institutions, national and provincial government, Statistics South Africa and business, financial and labour organisations.

The second element of the planning cycle, is to identify and mobilise dedicated and competent leadership within the local authority and within the community. Important stakeholders in a locality, include the local authority, formal and informal business, ratepayers, organised labour, NGOs, educational institutions, women's groups, youth

organisations, religious groups and even the unemployed. Once leaders are identified, they must be mobilised in task teams towards action.

Thirdly, it is important to find out what the community wants and needs. Methods that can be useful to consult within the community to obtain relevant information, can be ward meetings, surveys, public meetings, workshops, advisory groups and task teams and also a community SWOT analysis (strengths, weaknesses, opportunities and threats within a locality). This information will form the basis of an economic vision for a specific locality (IRI & NBI, 1998:45&46).

Fourthly, a locality must know where they want to go. A local authority should have an economic vision for its locality. A vision is a picture of where a local authority and community want to be in the future.

The next element of the planning cycle is the question "How do you get there?" If the vision is defined, then it is time to build the strategy to get there. A strategy consists of selecting the policies and initiatives to be pursued and the steps necessary to achieve them. In selecting and managing economic strategies, it is important to identify the objectives to be achieved and the persons to be affected by the strategy. Once the specific strategies are identified, it will be necessary to develop action plans. Action plans are the physical actions taken to achieve success. Action plans should cover the policy or initiative, the steps, the physical and financial resources required, the person(s) responsible and a time frame (IRI & NBI, 1998:46&47).

Lastly, it is important for a community to know how they are doing. They must determine if they are on target to achieve their vision. Feedback sessions are very important and the vision and strategies must consistently be evaluated in order to ensure they are meeting the original mandate.

2.5.3 THE LED PLANNING PROCESS

2.5.3.1 Integrated development plan (IDP)

Planning for LED is an important part of municipal planning. Every Municipal Council needs a planning process to help it formulate objectives for the development of the municipal area, set priorities and to decide how to structure the municipal budget and

administration towards realising the Council's development objectives. The municipal planning process revolves around the development of an IDP, a comprehensive plan for the development of the local area. It includes the following components (DPLG, 2000d:4).

- Long-term vision.
- Assessment of existing level of development.
- Development priorities.
- Development objectives.
- Development and operational strategies.
- Spatial framework.

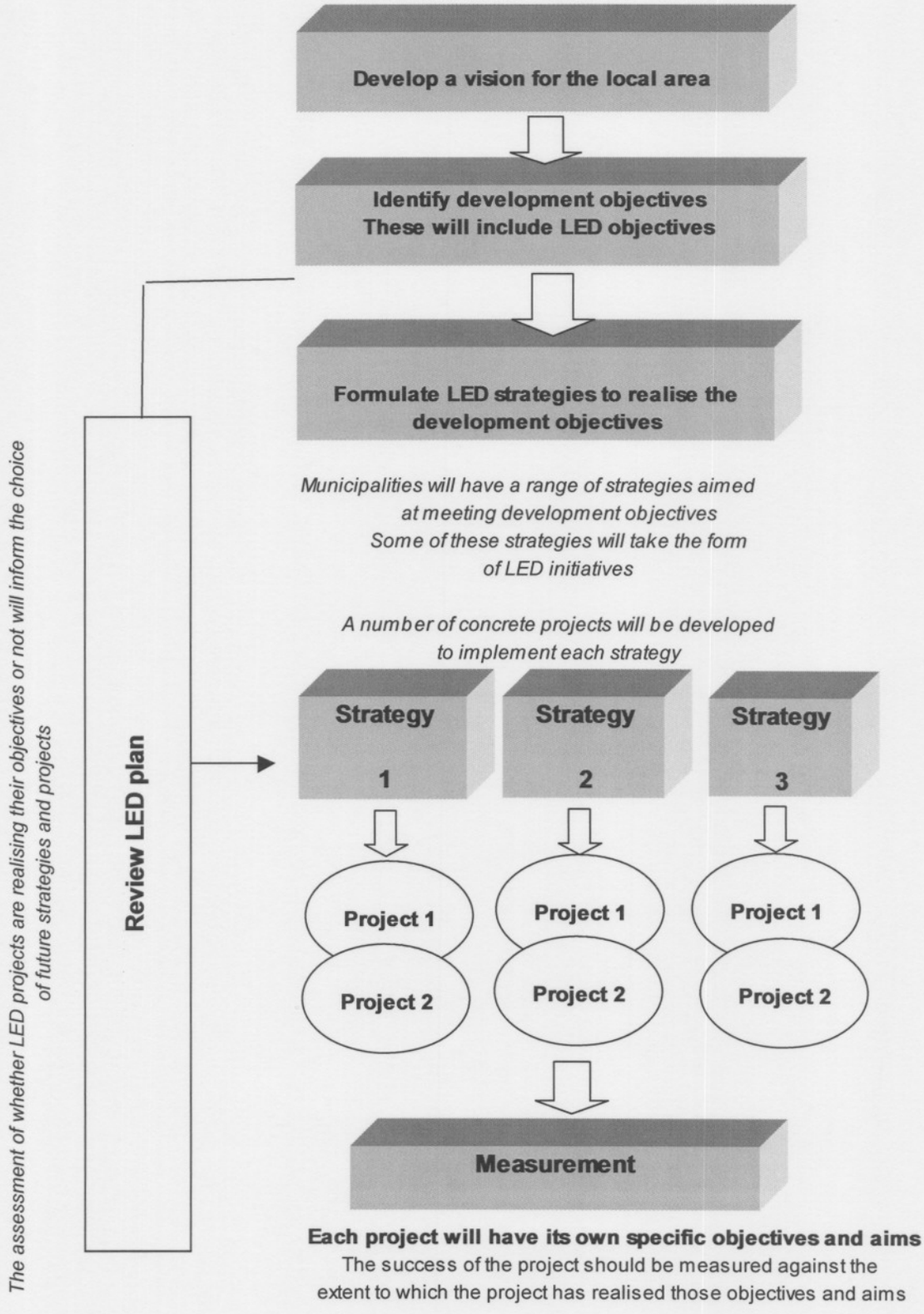
CASE (2001:47) states, that every municipality should have an IDP, because through the IDP, the municipality is informed about the problems affecting its municipal area. It helps municipalities to make effective use of its scarce resources and enables them to search for more effective solutions. The IDP eventually helps to speed up delivery.

2.5.3.2 Planning for LED

Planning for LED is part of developing an IDP. Municipal development objectives may include issues such as addressing unemployment in the local area, increasing 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. These strategies could consist of LED programmes and projects (DPLG, 2003:102).

Each LED project or instrument will have its own set of objectives. The impact of an LED project must be measured against the specific objectives set for that project. Objective information about how well LED projects are performing, will help municipalities to assess which strategies and projects are most successful. Figure 2.3 illustrates how the different steps of the LED planning process fit together.

Figure 2.3: The LED planning process



Source: DPLG, 2003:103

2.5.3.3 Inputs, outputs, outcomes and impacts

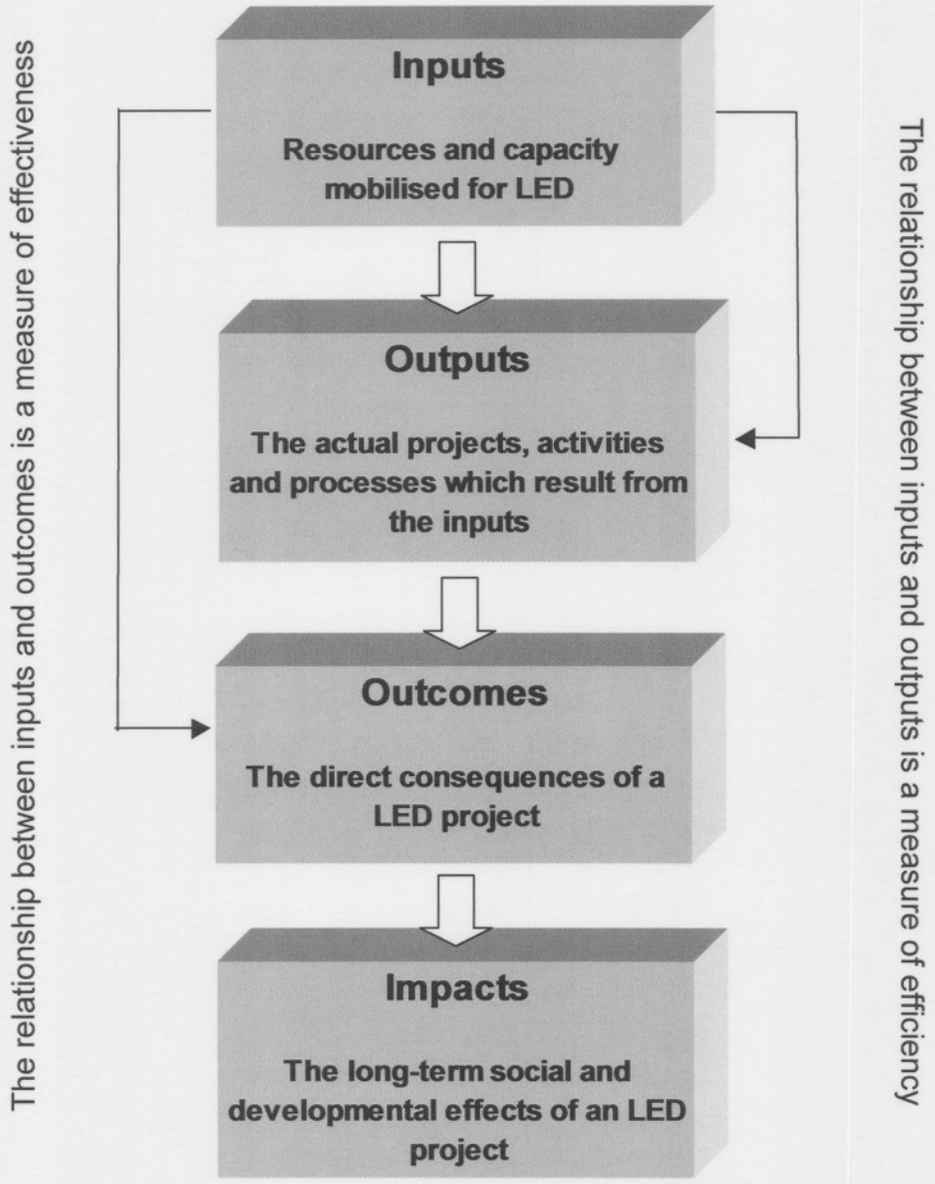
The results of LED projects can be measured on a number of levels. To enable accurate measurement, it is important to make a distinction between the inputs, outputs, outcomes and impacts of a LED programme or project (DPLG, 2000d:8).

Inputs are the resources and capacity which are mobilised to achieve a LED goal. Inputs can refer to a range of resources such as the money, efforts, time and personnel that are allocated to LED. Outputs are the specific activities, processes and projects that directly result from inputs. For example, the resources that are allocated to LED (inputs), could result in the establishment of a business support centre (output).

Outcomes refer to direct consequences or results that follow an activity, project or process (output). For example, a LED project (output) could result in new businesses locating in a local area (outcome). Impacts reflect the implications of a LED project for society as a whole. For example, the impact of a LED project may be an improvement in the quality of life of a community, measured over a long-term period (DPLG, 2003:104).

The relationship between inputs and outputs show how efficiently a local council (or other stakeholder) used their resources and capacity to develop a particular LED project. The relationship between inputs and outcomes is a measure of effectiveness. According to the DPLG (2003:105), there are six types of indicators which are useful for measuring the results of LED projects, namely, input, output, efficiency, outcome, impact and effectiveness indicators (see Figure 2.4).

Figure 2.4: The relationship between inputs and outputs/outcomes

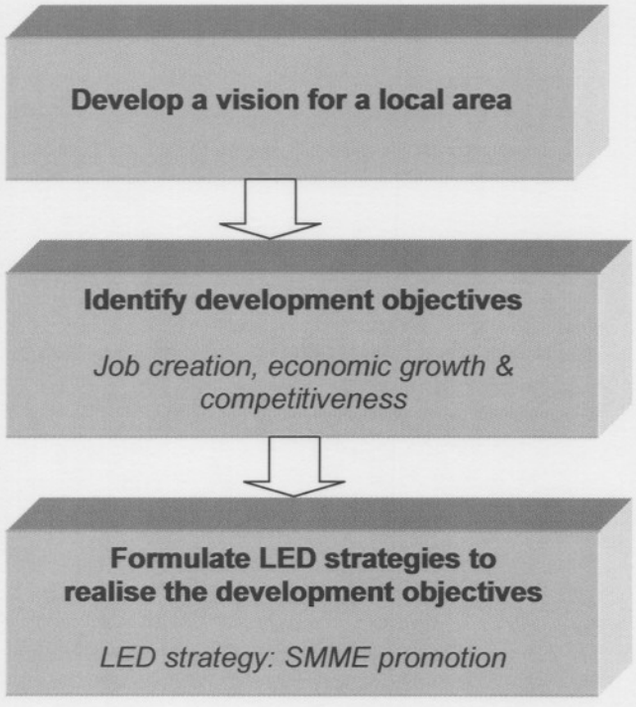


Source: DPLG, 2000d:10

2.5.3.4 Using the "input, output, outcome and impact" framework

In the first stages of the planning process, the local authority develops a vision for the local area, a set of development objectives and a set of strategies (e.g. SMME promotion) to realise those objectives (see Figure 2.5).

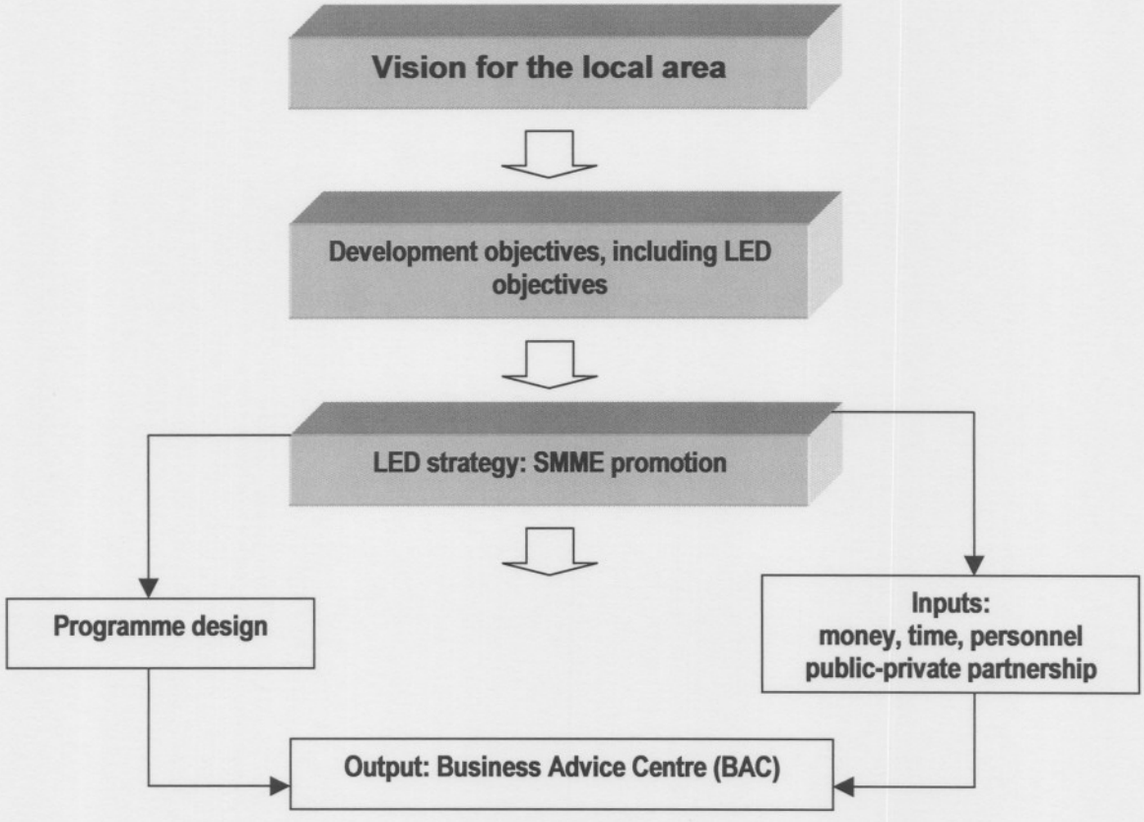
Figure 2.5: Vision, development objectives and LED strategy



Source: DPLG, 2003:108

The local authority then begins to design a LED programme which will promote SMMEs. As part of this planning process, the local authority must decide which instruments will be used to promote SMMEs. In this example (see Figure 2.6), it is decided that the establishment of a BAC is the best instrument to promote SMMEs. Then they must work out what inputs are required to establish the BAC. It may include municipal resources or additional resources from fund-raising or partnerships with the community and business sectors.

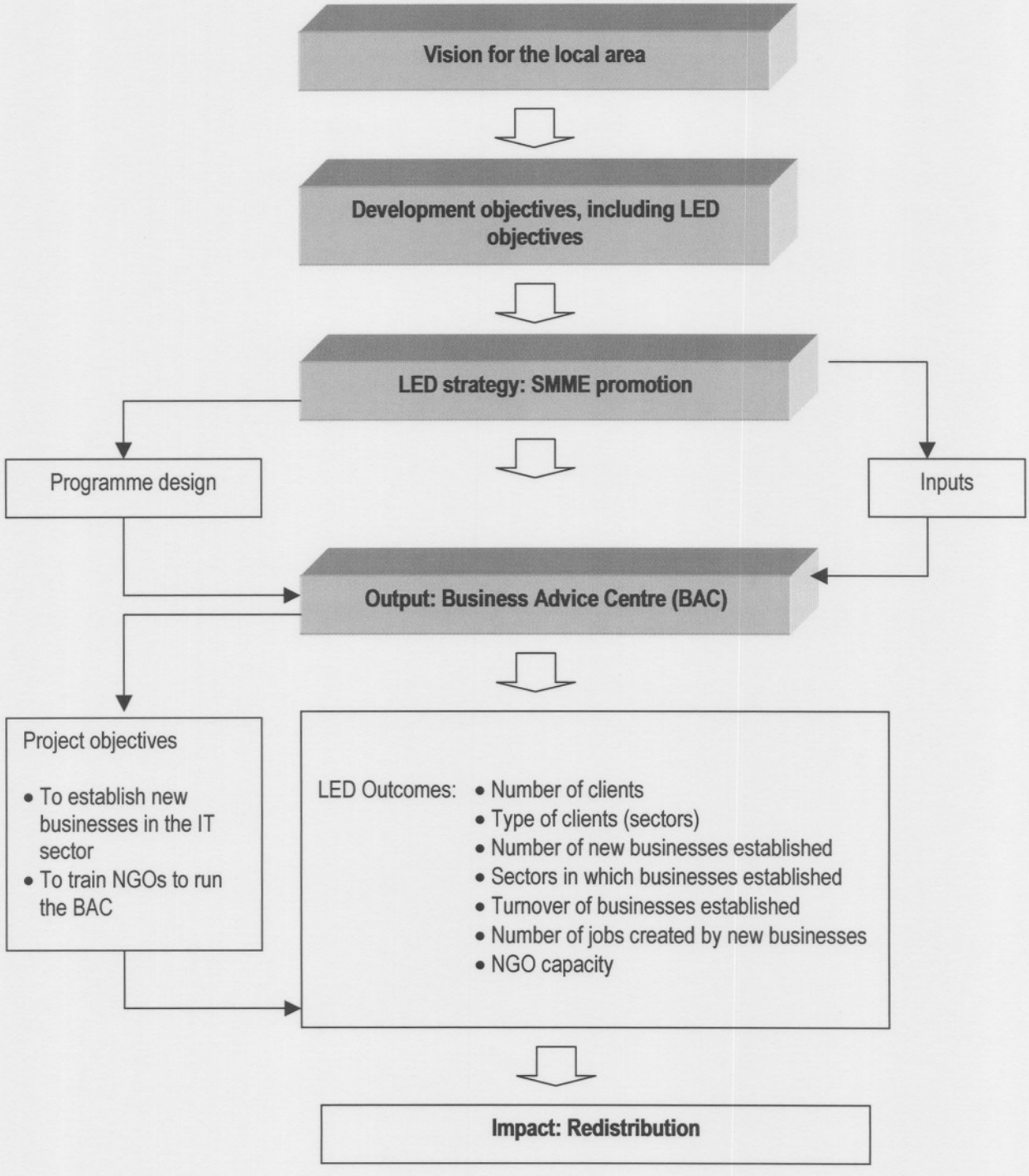
Figure 2.6: LED programme and inputs/outputs



Source: DPLG, 2003:109

The local authority must then set clear objectives for the BAC. These objectives will inform the development of outcome and impact indicators (see Figure 2.7).

Figure 2.7: Project objectives, LED outcomes and impact



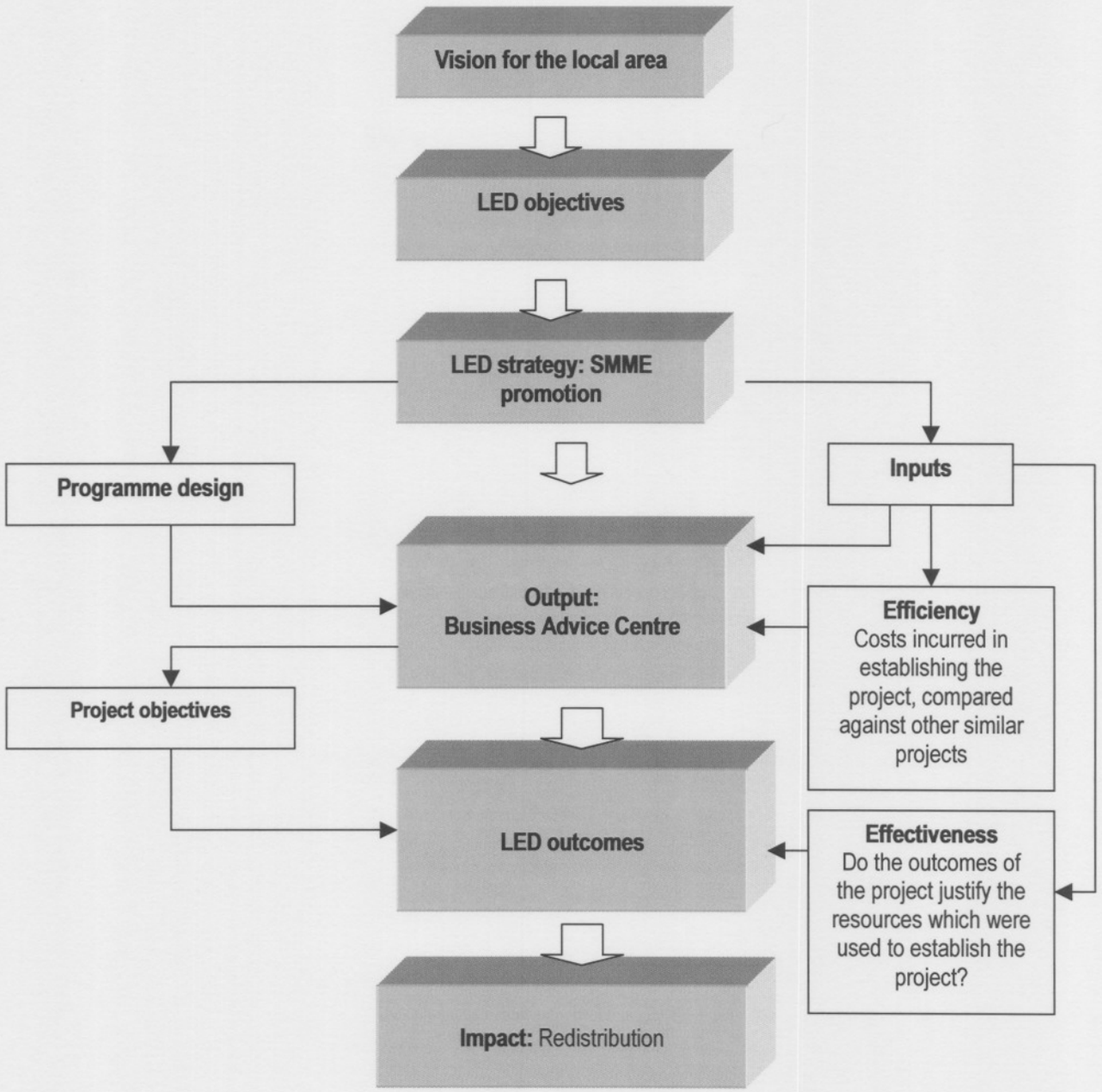
Source: DPLG, 2000d:14

Using the "inputs, outputs, outcomes and impact" framework, the local authority has now determined (DPLG, 2000d:14) –

- which strategy to follow (SMME development) to realise its LED objectives;
- which instrument or project (BAC) it will use to implement this strategy;
- which inputs are required to establish a BAC;
- what the objectives of the BAC are;
- how the results (outcomes) of the BAC can be measured; and
- what the desirable long-term impact of the project is.

The "inputs, output, outcomes and impact" framework can also help the local council to assess how efficiently and effectively their LED strategy has been implemented. Efficiency is measured by looking at the relationship between inputs and outputs. Effectiveness is measured by looking at the relationship between inputs and outcomes (see Figure 2.8).

Figure 2.8: LED and efficiency/effectiveness



Source: DPLG, 2003:111

2.5.3.5 Combining different methodologies

The DPLG (2003:111&112) states, that another useful measurement methodology which can be used, together with the "inputs, outputs, outcomes and impact" framework, is the "practical deliberation evaluation" approach. It provides a check-list of important

questions that local authorities should take into consideration in their evaluation process.

The DPLG (2003:112) states that the first set of questions deal with "instrument verification". These questions are aimed at determining whether the LED instrument, project, tool or activity is appropriate. The second set of questions deal with "outcome validation". These questions are aimed at determining whether the outcomes of the LED project are appropriate to the local context. The third set of questions deal with "societal impact". These questions are aimed at assessing the long-term social and developmental impact of the LED project.

2.5.4 IMPLEMENTATION OF LED AND INSTITUTIONAL ARRANGEMENTS

2.5.4.1 Definition of institutional arrangements

Institutional arrangements for LED refer to the range of organisations, structures and networks through which LED can be co-ordinated, managed, implemented and monitored. The design of an institutional arrangement for LED also deals with the way that these institutions relate to each other, to the local authority, other spheres of government and to other stakeholders. Local authorities remain politically accountable for any institutional arrangement opted for.

A distinction needs to be made between LED institutional arrangements that focus on the co-ordination of a LED programme as a whole, and those that focus on specific LED projects (DPLG, 2003:5&6).

- At a programme level, institutions are required to take responsibility for the co-ordination and management of the LED programme as a whole, and for the identification and mobilisation of resources necessary for the planning and implementation of LED.
- At a project-level, specific institutions or structures are given responsibility for managing individual projects within the LED programme. In addition to providing programme-level leadership and co-ordination, local authorities may be involved in LED projects. LED projects may also be managed and driven through a number of different institutions, where the local authority plays a less direct role.

2.5.4.2 Municipal LED units

Broadly speaking, the following are the three ways in which the LED unit can be positioned within the municipal administration (DPLG, 2000a:7-9).

- At the centre of the municipal administration. This usually means locating the unit in the office of the Municipal Manager. This location has the advantage of allowing the LED unit to play a highly strategic role, as it is not directly linked to a line department with operational responsibilities. A LED unit located in the office of the Municipal Manager, will typically be a small strategic unit, which will act mainly as an advocate and facilitator.
- Within a line department. A line department is a department responsible for a specific municipal service, for example, a department responsible for water and sanitation or roads. LED units situated within a line department will usually play an operational rather than a strategic or facilitatory role.
- Within a planning and development department. Municipal departments responsible for planning and developing are usually tasked with the co-ordination for and preparation of municipal IDPs. This enables these departments to exercise considerable influence over the municipality's developmental policy agenda. Planning departments are also responsible for the implementation of specific development projects. A LED unit located within a planning and development department is, therefore, likely to combine both policy and implementation functions.

Alternative municipal institutional arrangements include the following (IRI & NBI, 1998:49&50 and DPLG, 2003:11-13).

- The appointment of a LED co-ordinator. A LED co-ordinator is an employee responsible for LED. Ideally, the LED co-ordinator should report to the Municipal Manager or to the executive structure of the Municipal Council (the Executive Committee or Executive Major). This will enhance the co-ordinator's ability to effectively co-ordinate programmes across municipal departments.
- The appointment of a LED consultant. Municipalities could hire consultants to assist in designing LED programmes, or to advise on specific LED projects.

- The establishment of a LED management team. This is a team of senior officials and councillors that meet to manage and co-ordinate specific LED initiatives. The team must be able to meet at short notice and should have some delegated authority to enable rapid decision-making.
- Community-based committees. A municipality may request members of the community to serve voluntarily on Council Committees dealing with LED. This is an effective way of accessing the expertise of local business and community groups on specific issues. It is important to remember that community members cannot have voting rights in Council Committees.

Smaller municipalities should also consider sharing LED co-ordinators with each other in order for them to reduce costs. This could be managed as a direct agreement between two or more municipalities, or co-ordinated through a District Council.

2.5.4.3 Community development trust (CDT)

A CDT is a way of managing funds and assets which have been reserved for the specific purpose of LED. A CDT in LED will usually act as a channel and administrator of funds or other assets for the implementation of LED initiatives. A CDT comes into being when a person (the "founder" or "donor") hands over the control of certain funds or assets to another party (the "trustee"), who must administer those funds and assets for the purpose of LED. Neither the donor, nor the trustee enters into the arrangements for personal benefit (CASE, 2001:78).

2.5.4.4 Section 21 companies

A section 21 company is a non-profit company. In other words, a section 21 company may not distribute any profits it may generate to its members. A section 21 company that is formed for the purpose of implementing LED, must therefore, reinvest any profits it realises back into LED implementation.

Section 21 of the Companies Act (Act 61 of 1973) provides for an association of at least seven persons or organisations to be incorporated as a company if the association meets the following requirements (DPLG, 2003:16).

- It is formed for a legal purpose.

- Its objective is to promote a cultural or social activity or group interest.
- It intends to apply any profits or other income it might make in promoting its objective.
- Its memorandum of association states, that no income or property of the association shall be distributed to its members in any way, but shall be used to further the objective. It must also state that, if the company should be closed down, any assets of the association remaining after the payment of its creditors, will be transferred to another association or institution having a similar objective.

A section 21 Company has numerous advantages for LED according to CASE (2001:80). It has the status of a legal person and has limited liability in the case of bankruptcy. Its independence allows for flexibility and effectiveness and it has the structure and management style of a commercial enterprise.

2.5.4.5 Partnerships with other stakeholders

Partnerships between municipalities and businesses or community organisations can provide useful institutional vehicles for LED. Different types of partnerships work well at both the programme level and the project level. Local government will often form partnerships with other stakeholders to assist in the co-ordination of programme-level LED initiatives, and to help secure a shared community vision as a basis for LED. These partnerships may range from unstructured or informal partnerships, to formal and tightly structured arrangements (DPLG, 2000a:20).

Municipalities may enter into project-level partnerships so as to improve the provision or upgrading of services or infrastructure. Efficient delivery of services and infrastructure are key instruments for municipalities to create an investor friendly environment and boost local business confidence. Various municipal service partnerships can be entered into, to build the capacity of the municipality.

2.5.4.6 Choosing institutional arrangements for LED

The choice of an appropriate programme-level institutional arrangement will be influenced by a number of factors. The most significant factors that need to be considered by municipalities include the following (DPLG, 2003:27).

- The nature of the role that the municipality will play in LED.
- The need to co-ordinate LED with the IDP process.
- The capacity of the municipality.
- Legal constraints.
- The nature of the LED approach to be taken by the programme institution.

Municipalities should also consider whether their role in implementing LED strategies will be direct or indirect. This will guide the choice of institutional arrangements. Table 2.3 lists some potential municipal roles and categorises them as direct or indirect.

Table 2.3: Direct and indirect roles of municipalities in LED

Direct roles of municipalities in LED	Indirect roles of municipalities in LED
Policy formulation and leadership in integrated development planning and spatial planning, including the formulation of IDPs and LDOs and procurement policy.	*Creation of an enabling environment*, including rendering better services.
Collation and interpretation of economic intelligence. For example, conducting research and maintaining databases and city indices.	*Improvement of operational efficiency*, for example, quicker processing of licensing applications.
Co-ordination of local initiatives and other government LED programmes.	*Facilitation* of sustainable community projects.
Provision of business infrastructure, particularly in previously disadvantaged areas.	*Attraction of development funding* for the locality.
Support to SMMEs, including the facilitation of funding and training.	*Dissemination of information* on LED, in conjunction with DPLG, South African Local Government Association (SALGA) and other stakeholders.
Development of incentives for inward investment.	

Source: DPLG, 2003:29

There is a wide range of possible LED projects. Not only are LED projects diverse, but they are also implemented in diverse contexts. This makes it difficult to provide detailed guidelines towards how to choose an institutional arrangement for a LED project. The

most appropriate institutional arrangements can be determined only by looking at the specific objectives of the project and the context in which the project will be implemented (DPLG, 2003:33&34).

Perhaps the most significant factor influencing the choice of institution, is the nature of the LED strategies used (see LED strategies in section 2.4.3). Local authorities should consider which strategies they are most likely to use, and choose project-level institutional arrangements which are able to manage the implementation of their chosen strategies.

2.6 SUMMARY

Local governments in South Africa have a legal developmental mandate to encourage them to plan and implement LED strategies in their respective localities. Common strategies include industrial recruitment and place marketing, SMME promotion and support, community economic development, export promotion and international trade and also business attraction, retention and expansion.

Many localities and local governments are still formulating LED strategies and are not really at a point of implementation. Institutional options for the implementation of LED in South Africa include municipal LED units, a CDT, section 21 companies and partnerships with other stakeholders. There is an increase in the number of success stories of LED in South Africa – which is an indication that municipalities increasingly start to grasp the essence of LED. Partnerships between the local authority and other stakeholders in the community, like the private sector, are critical in the success of LED in a specific locality.

CHAPTER 3: FINANCING OF LED IN SOUTH AFRICA

3.1 INTRODUCTION

The financing of LED in the South African context will be investigated in this chapter. LED can only be successful if there are financial resources available in a specific locality to finance any LED initiatives. The first part of the chapter will focus on the variety of financial resources available from the national government, the private sector, and the local government's budgets, that will help a locality to establish LED strategies.

The second part of the chapter will focus on local governments' budgets as a way of financing LED strategies in a specific locality. Local government finance will be discussed within the framework of South Africa's system of fiscal federalism. The problems and challenges of local government budgets and finance will also be highlighted. Lastly, a summary of the chapter will be given.

3.2 FINANCING AND RESOURCES OF LED IN SOUTH AFRICA

No single national fund exists in South Africa to promote LED. LED is the responsibility of all government departments and agencies, and all roleplayers throughout society. The most important resources available to meet LED objectives, are existing government programmes and intergovernmental grants, funding from institutions such as the Development Bank of Southern Africa (DBSA) and the Industrial Development Corporation (IDC), the private sector, community organisations and NGO funding as well as funding from local authorities' budgets. The Department of Provincial and Local Government (DPLG) and the National Treasury are playing an important role with the transfer of conditional and unconditional grants to local governments for LED purposes.

3.2.1 GOVERNMENT FUNDING FOR LED INITIATIVES

3.2.1.1 National Treasury and the DPLG

The local government's equitable share (see Section 3.3.2.1) is influenced by section 214 of the Constitution. It is to empower municipalities to provide basic services to poor people. The programme is available to all category A (metropolitan councils) and B (local municipalities) municipalities.

This funding programme supports the following LED strategies (DPLG, 2003:158).

- Development and maintenance of infrastructure and services.
- Retention and expansion of existing businesses.
- Plugging gaps in the local economy.
- Development of human capital.
- Community economic development.

3.2.1.2 Department of Provincial and Local Government (DPLG)

The DPLG is involved in several LED financing programmes in South Africa. Firstly, the DPLG's Consolidated Municipal Infrastructure Programme (CMIP) is designed to further the aims of the RDP through the provision of bulk connector and internal services, community services and facilities in support of previously disadvantaged areas. The target group is local government and funding is available for short-, medium- and long-term projects and is directed at infrastructure, SMME development and capacity building.

The programme supports the following LED strategies (DPLG, 2000c:14).

- Development and maintenance of infrastructure and services.
- Retention and expansion of existing businesses.
- Plugging gaps in the local economy.
- Development of human capital.
- Community economic development.
- SMME development.

The CMIP is a useful funding source for PPPs, as it makes provision for new infrastructure and the upgrading of the existing infrastructure in the form of a capital grant to local authorities. One of the guiding principles of the CMIP, is the long-term financial sustainability for projects (IRI & NBI, 1998:60).

Since the inception of the CMIP, a total of 1 482 projects to the value of R4.3 billion have been completed. By June 2002, approximately three million households that previously had no access to a basic level of services, were benefiting from the different project categories provided by the CMIP, such as water, sanitation, roads, storm water, solid waste and community lighting and facilities. Greater support has been given to rural development, with 56% of CMIP funds allocated to projects in these areas. The use of labour intensive construction methods had created 14 million person days of temporary and permanent employment for local labourers, particularly for single-headed households, women, youth and the disabled. The CMIP supports the Housing Programme, Integrated Sustainable Rural Development Programme and Urban Renewal Strategy. An additional amount of R300 million has been allocated to the CMIP during the 2002/03 financial year for funding in the nodal areas (South Africa Yearbook, 2002/03).

Secondly, the Municipal Infrastructure Investment Unit (MIIU) was set up in 1998 to encourage private sector investment in municipal services and to establish a market for such investments. Government provides an annual grant to the Unit. Through this grant, the Unit has undertaken 15 pilot projects and has assisted many municipalities in preparing and finalising appropriate municipal service partnership agreements (South Africa Yearbook, 2002/2003).

The total number of municipal service partnership transactions completed by the MIIU, continues to increase. During 2001/02, the MIIU completed five such projects, with a total contract value of over R1 billion. This brought the total contract value of all MIIU projects during its four-year existence to over R6.7 billion. As a result (only taking into account the projects of 2001), over 280 000 disadvantaged South African households received new, improved, or more efficient municipal services. These services include water and sanitation, waste management, municipal transport and municipal power (South Africa Yearbook, 2002/03).

The MIIU has embarked on a programme to undertake diagnostic studies in a number of municipalities to determine the opportunity for private sector investment in these localities.

Thirdly, the Local Economic Development Fund (LEDF) is targeted to municipalities that engage in projects impacting on job creation and poverty alleviation. Funding is available for short and long term projects in this regard. A maximum of R1.5 million is made available to each municipality whose application is approved. The budget for the LEDF in the 2001/2002 fiscal year was R78 million. Innovative municipalities in both declining and growing regions are targeted by the Fund. The LEDF supports the following LED strategies (DPLG, 2003:156).

- SMME development.
- Development and maintenance of infrastructure.
- Retention and expansion of existing businesses.
- Plugging gaps in the local economy.
- Development of human capital.
- Community economic development.

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. Almost half of the country's municipalities applied for the Fund in its initial phase, which amounted to requests for approximately eighteen times more funds than were initially available.

The Minister for Provincial and Local Government, Mr Sydney Mufamadi, said in his budget vote in June 2002, that the LEDF had supported 188 municipalities, with 88% of the municipalities having received training in LED (South Africa Yearbook, 2002/03).

Fourthly, the Social Fund provides "Regeneration Study Grants" to local authorities which are experiencing large-scale retrenchments. These grants aim at providing local authorities with the resources that allow strategic reflection and planning into ways and means to re-develop the local economy. Municipalities must show that they have the institutional capacity to implement corrective action (CASE, 2001:83).

While the Social Fund is clearly used only in emergency situations, recent large-scale retrenchments in the mining and textile industries could mean that the Fund could become a prominent tool for LED in the future. The LEDF can also be used in localities

that have been negatively effected by large-scale retrenchments in declining sectors or industries, but that have the potential to grow their economies in new ways through local commitment, combined with skillful deployment of resources.

Fifthly, the Municipal Service Partnership Programme aims at encouraging and optimising private sector investment in local authority services on a sustainable basis for local authorities. It supports the development and maintenance of infrastructure and the retention and expansion of existing businesses (DPLG, 2000e:42).

Lastly, the Rural Pilot Programme provides better water and sanitation services, improved roads and storm water drainage to rural communities. It facilitates partnerships between municipalities, NGOs and the private sector (CASE, 2001:46).

3.2.1.3 Department of Housing

The Housing Development Programme is influenced by the Whitepaper on Housing and is intended to provide financial assistance for the target groups to purchase houses. The target group constitutes provincial governments, urban and rural municipalities, individuals whose household income is less than R3 500 per month, and meet other criteria, and also organisations, consultants, Community-Based Organisations (CBOs) and NGOs. The programme supports the following LED strategies (DPLG, 2003:143&144).

- Development and maintenance of infrastructure.
- Retention and expansion of existing businesses.
- Plugging gaps in the local economy.
- Development of human capital.
- Community economic development.
- SMME development.

3.2.1.4 Department of Trade and Industry (DTI)

The following DTI programmes overlap with LED programmes (DPLG, 2003:125-195).

- Business Loans for Retail Financial Intermediaries. To qualify for loans, retail lending organisations must be involved in the SMME market and have the potential to be sustainable and fall within DTI's Khula's eligibility criteria.
- The Competitiveness Fund aims to improve the competitiveness of South African firms and to facilitate improved profitability through greater and more efficient penetration of both export and domestic markets. In 2001/2002, R40 million was available in this regard, with a maximum of R600 000 per business.
- The Danish Business-to-Business Programme aims at creating jobs for eligible entrepreneurs from the previously disadvantaged communities. Khula will issue a 100% guarantee to the financial institution that will issue a loan to the beneficiary.
- Khula Start provides financial support for the lower end of the micro-enterprise sector. As much as 70% of the loans are targeted for women.
- The Sector Partnership is available to any partnership of five or more organisations within the South African manufacturing and agro-processing industries. It promotes collaborative projects and SMME development.
- The Small/Medium Manufacturing Development Programme promotes investment in the manufacturing sector and small/medium sized manufacturing.
- DTI's Spatial Development Initiatives are available to areas with a high potential for economic growth. Its objective is to attract private sector investment and to establish local industrial parks.
- The Technology Guarantee Fund provides guarantees for SMMEs for the purpose of acquiring manufacturing technology.
- The Thuso Mentorship Programme provides mentorship services to SMMEs owned by previously disadvantages individuals.
- The Motor Industry Development Programme's (MIDP) objective, is to develop the motor industry by increasing competitiveness and productivity. The MIDP does not provide funding, but allows companies to apply for rebates in order to exempt the applicant from paying duty.

3.2.1.5 Other LED-related government programmes

As pointed out in Table 3.1, there are also many other government programmes to promote LED in South Africa, like the development and maintenance of infrastructure and services, welfare-related financing programmes, human resource development and capacity-building financing sources, varied incentive schemes for entrepreneurs and funds to boost local culture, environment and tourism. The following programmes can be pointed out (DPLG, 2003:125-195).

- Bus subsidies and contracts of the Department of Transport.
- Child Support Grant of the Department of Social Development.
- Rebate provisions of DTI and the Board on Tariffs and Trade (BTT).
- Local Industrial Park (LIP) Programme of Public Works and DTI.
- Community-Based Public Works Programme of the Department of Public Works.
- Ikhwelo Programme and the Schools as Centres for Community Development of the Department of Education.
- Integrated Nutrition Programme of the Department of Health.
- Labour Market Skills Development Programme and the Social Plan and Work Placement Challenge of the Department of Labour.
- Land Reform Credit Facility of DTI and the Department of Land Affairs.
- National Landcare Programme of the Department of Agriculture.
- The Roads Infrastructure Project of the South African Road Agency.
- Sport and Recreation Facilities Project of the Department of Sport and Recreation.
- Tourism development infrastructure and also coastal and waste management of the Department of Environmental Affairs and Tourism.
- Working for the Water Programme of the Department of Water Affairs and Forestry.

Table 3.1: Government-related LED grants and subsidies

NAME OF PROGRAMME	LOCAL ECONOMIC DEVELOPMENT STRATEGIES						
	Development & maintenance of infrastructure and services	Retention / expansion of existing businesses	Identifying gaps in the local economy	Development of human capital	Community economic development	SMME development	Investment attraction & place marketing
Bridging Finance and Guarantee Scheme						•	
Bus Subsidies and Contracts	•				•	•	
Business Loans for Retail Financial Intermediaries						•	
Child Support Grant				•	•		
Community-Based Public Works Programme	•		•	•	•	•	
Competitiveness Fund		•					•
Consolidated Municipal Infrastructure Programme	•	•	•	•	•	•	
Danish Business to Business Programme						•	
Entrepreneurial Finance Schemes		•				•	
Housing Development	•	•	•	•	•	•	
Ikhwelo Programme		•	•	•	•	•	
Integrated Nutrition Programme				•	•	•	
Khula Start						•	
Labour Market Skills Development Programme			•			•	•
Land Reform Credit Facility	•	•				•	
Local Economic Development Fund	•	•	•	•	•	•	
Local Government Equitable Share	•	•	•	•	•		
Local Industrial Park Programme						•	
Motor Industry Development Programme		•				•	
Municipal Service Partnership	•	•	•	•	•	•	
National Landcare Programme	•	•	•	•	•	•	
Normal Financing Facilities	•			•	•	•	
Rebate Provisions		•	•			•	
Road Infrastructure Project	•						
Rural Pilot Project	•				•		
Schools as Centres for Community Development				•	•	•	
Sector Partnership						•	
Small / Medium Manufacturing Development Programme						•	
Social Plan and Work Placement Challenge	•	•			•	•	•
Spatial Development Initiative			•				
Sport and Recreation Facilities Project	•			•			
Techno Industries						•	•
Technology Guarantee Fund						•	
Thuso Mentorship Programme						•	
Tourism Development and Infrastructure, Coastal Management and Waste Management				•		•	
Working for Water Programme			•		•	•	

Source: DPLG, 2003:125

3.2.1.6 Funding to community organisations

The four general strategies that the government considers appropriate for the investment of social capital into the people-driven LED (CASE, 2001:88).

- Straight grants or in-kind support can be given to a community organisation.
- Grants for capacity building can be linked to projects. The IDT could factor into the total cost of projects funding for capacity building.
- A system can be established whereby generated funds can be channelled to community organisations that have the recognised public support of the voting public.
- Organisations can be provided with the ability to use existing government resources from agencies – especially municipalities, so as to make direct appeals for funds.

Each of the four options has been tried in South Africa and other countries, and each has its costs and benefits. It is obviously desirable to test the support of each option with a variety of stakeholders involved in community funding.

Through the employment of instruments such as focus group discussions, polling of communities and stakeholders, and a process of "trial and error" in which all options are introduced under "control-group" circumstances, may offer municipalities insight into which options are the most desirable or preferable.

3.2.1.7 Institutional arrangements for the financing of LED

The financing of LED initiatives is a critical consideration when planning for the implementation of LED. Several institutional mechanisms that can be utilised to direct and channel funds, are earmarked for LED. In this regard municipal LED units, CDTs, section 21 companies and partnerships and also programme and project level institutional arrangements, are already discussed in Chapter 2 (Section 2.5.4).

Institutional improvements and further resources will be required at national, provincial and municipal levels in order to accomplish the effective leveraging of national funds for LED. National government programmes can be combined by a municipality in imaginative ways so as to realise the objectives of LED in general, and the objectives of

particular strategies. A distinction can be drawn between programmes that can be accessed directly and those available to communities or individual firms indirectly (without the intervention of a municipal official).

Many national programmes relegated the involvement of local authorities to a minor consultative role. A great deal of fine-tuning within these programmes, to more explicitly support LED initiatives in more targeted ways, is an urgent priority. The following are national institutional reforms that have also been identified in the process of reviewing LED initiatives (DPLG, 2001:40&41).

- There is a need for better co-ordination and integration of programmes, and in particular for stronger relations between DPLG and DTI so as to maximise business incentives within the context of LED.
- It is important for all national and provincial governments to reduce the administrative burden on local governments.
- Expansion, or in some cases, redirection of funding, is also required, given that the periodic shortages of national funds have been a contributing factor to the failure of municipalities to access national programmes.
- Limited information is available on programmes at local level, and improvements are required in communication of programme details to relevant officials, local civil society and local business interests.

3.2.2 DEVELOPMENT BANK OF SOUTHERN AFRICA (DBSA)

The DBSA aims to finance sustainable development in partnership with the public and private sectors. The focus is on investment in infrastructure and to act as a catalyst for investment. For local authorities, the following type of assistance is available from the DBSA (IRI & NBI, 1998:61).

- Municipal infrastructure: reticulation services, municipal facilities, fire services and passenger transport systems.
- Rural infrastructure: water schemes, sanitation, roads, input depots and distribution points, small business manufacturing and communication systems.

- Social infrastructure: clinics, health centres, hospitals, educational facilities and community learning centres.
- Eco-tourism infrastructure: municipal infrastructure for green spaces, fencing, walking trails and cultural centers.
- Entrepreneurial infrastructure: concession investments, toll roads, physical infrastructure for SMMEs (hives and incubators), markets and technology transfer facilities.

The DBSA operates a computer programme that assesses the viability of infrastructure loan requests submitted by local authorities. The programme calculates how much a project will cost in terms of infrastructure and budget requirements. Once these are identified, the borrowing requirements necessary to implement the project, are determined.

3.2.3 INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

The IDC is involved in the following LED-related programmes (DPLG, 2003:125-195).

- The Bridging Finance and Guarantee Scheme is intended to assist entrepreneurs requiring guarantees and/or bridging finance to fulfill terms contracts.
- The Entrepreneurial Finance Scheme's target group is for emerging entrepreneurs. Funding is open to any participant in the medium and large enterprises and indeed in the following areas: takeovers and acquisitions, consortium and finance, wholesale finance, low interest rate empowerment, fish harvesting, agro-scheme and medium/small projects.
- Normal Financing Facilities are to be used for medium-term projects, mainly on industrial property, plant and machinery, working capital, plant and equipment. Funding is open to any participant in the SMME sector.
- Techno Industries. The target group constitutes emerging entrepreneurs and funding is to be used for medium-term projects, related to information technology, telecommunications, electronics and electrical industries.

3.2.4 PRIVATE SECTOR FUNDING

According to the IRI & NBI (1998:62), valuable support can be found through corporate donors, private foundations and foreign development agencies for funding economic development. These funding organs seldom give money directly to local authorities; however, they often provide support directly to an NGO, a local business service centre (LBSC) or other institutions. Local authorities can assist these organisations by directing them towards sources of potential support.

Examples of these organisations in the South African context, include the ABSA Foundation Trust, British Petroleum (BP) South Africa Ltd, Coca-Cola South Africa, Get Ahead Financial Services, Independent Business Finance Centre (IBFC), the World Bank, Kagiso Trust, Khula Enterprise Finance Ltd, National Housing Finance Corporation, South African Housing Trust, United States Agency for International Development (USAID), British Development Division in Southern African (BDDSA), the Iscor Foundation and the WK Kellogg Foundation.

3.2.5 LOCAL AUTHORITIES

A local authority's budget and fiscal transfers from the national government and budget are important tools for stimulating LED in a specific locality. Although decisions on budget issues will involve difficult trade-offs, it is important that the budget reflects a local authority's economic and development priorities. An annual budget is a plan which summarises in financial terms, the activities planned in the forthcoming year. It sets out the expenditure which will be incurred to fulfill these activities, as well as the income and capital required to finance this expenditure (IRI & NBI, 1998:58).

Budgeting is an exercise common to all local authorities and it provides local authorities with the opportunity to directly address economic development needs. Through the planning and budget process, local authorities should engage communities in identifying priorities. These priorities should determine much of the expenditure in a local authority's budget.

The budget can provide resources, both human and physical, for many economic growth initiatives. Such initiatives may include funds to hire a LED Co-ordinator, infrastructure projects like water and road repairs, maintenance costs on a site for a

LBSC and membership fees to publicity associations. By investing in projects to stimulate economic growth and job creation, local authorities can increase their rates base. This increase may provide more income to the local authority, giving it more flexibility in terms of budgeting. In addition, local authorities may consider means of locating funds for development in the budget by participating in PPPs and other tools.

The IRI & NBI (1998:58) state that local authorities must also find alternative sources of revenue. Revenue can be raised by increasing rates, service charges, licensing, external and internal loans. However, the effects of such increases must be examined carefully. For example, a large rates increase could result in the locality becoming an unattractive place for potential investors or could even spark a rates boycott.

There also are fiscal transfers from the national budget to local governments. The DPLG determines allocations to individual municipalities and the allocations are determined in terms of an equitable share formula. These funds empower municipalities to provide basic services and it supports LED strategies like the development and maintenance of infrastructure and services, and also community economic development.

CASE (2001:83) states that municipalities will receive more grants that are unconditional and financial decisions will be shifted to municipalities. Currently municipalities receive four grants for different functions. These will become one grant and municipalities will have to decide how to allocate this money for the various functions it is supposed to service. In this way, local government will increasingly become the focus for service delivery.

Out of this one grant, municipalities will have to budget for LED. At the same time that the municipality allocates funds from their grants or from other sources for LED, development must begin to benefit the municipality. In other words, the municipality should manage LED in such a way, that sufficient revenue from LED is channelled back into local government so as to make it self-sustainable, rather than to be totally dependent on national grants. Successful LED supported local governments will be able to develop and promote further economic initiatives and support for economic development (CASE, 2001:83).

In any funding programme specific criteria should be met. Funding sources, whether from the government or private sectors, will need to be assured that money will be spent productively. In many programmes, extra benefits through capacity-building and the empowerment of disadvantaged communities, are considered as criteria.

Local authorities are not the only recipients of funding. Many successful development efforts require that other sources, such as NGOs or a section 21 company, solicit and manage funds. Local authorities should work closely with such organisations. Close co-operation from local authorities can go a long way in building the capacity of such organisations and contribute to sustainable economic development.

According to the IRI & NBI (1998:63), local authorities may need to re-direct current staff activities to ensure that they are fully aware of the range of programmes available and that they apply for the necessary funds. This responsibility will depend upon the needs of the local authority. This department will have to take the time to make personal contacts and form relationships with possible funders.

More detail (and relevant statistics) about the above-mentioned fiscal transfers and local government finance in South Africa, will be discussed in the next section.

3.3 LOCAL GOVERNMENT FINANCE IN SOUTH AFRICA

3.3.1 LOCAL GOVERNMENT FINANCE IN A SYSTEM OF INTER-GOVERNMENTAL FISCAL RELATIONS

The Constitution of South Africa (1996) establishes national, provincial and local government as autonomous spheres which are "distinctive, interdependent and interrelated". It identifies function areas of concurrent and exclusive competence. In order to give effect to the requirements of the Constitution, budgetary procedures and other institutional arrangements have undergone dramatic changes. The Constitution also recognises local government as a separate sphere of government entitled to an equitable share of nationally raised revenue.

By 1997 (after the 1994 first democratic elections and the finalisation of the Constitution in 1996), the Financial and Fiscal Commission (FFC) stated that there is no coherent system of intergovernment fiscal flows into local government. Neither the source of the

flows nor their extent is known with any certainty. They argued that there is clearly an urgent need to develop a new system for the local government sphere which complies with the accepted framework, that has been established for the other two government spheres, and also generally accepted norms for intergovernmental fiscal relations (Department of Finance, 1998:1).

The distribution of resources to local governments was not addressed explicitly in the FFC formula before 1998. The transfers to local governments went via the transfers to provinces and were captured in the so-called Basic Grant. The FFC (1996:29) states that the intergovernmental transfers from the national government to local authorities (which were included in the global amounts going to the provinces), were unsatisfactory, because the criteria on which such grants were made, were subject to doubt. The FFC favoured a mechanism for transfers to local government based on similar considerations to those used in the provincial grants formula.

Given the new local government boundaries and the lack of demographic and financial information for this sphere of government, the FFC (1996:30) beliefs that the question of resource allocation to local governments should be examined seriously in the 1998/99 financial year. A conference titled "Designing local government for South Africa: structures, functions and fiscal options" was held in Pretoria from 23-25 July 1997, to address the above-mentioned problem(s) with regard to local government finance in South Africa.

In 1998, the government decided to do away with the system of operating grants to municipalities and introduced a new system called "the equitable share for local government". One of the main reasons for this decision, was that the system of operating grants to municipalities was unequal and unpredictable, and it also contributed to an undesirable situation in which more and more local governments got into financial difficulties (Department of Finance, 1998:1).

The Department of Finance (1998:10) states, that the Constitution does not specify the aims of a system of transfers to local government in detail. Policy goals have to be considered as well. The following four central objectives have been established as a basis for restructuring the system of central-local transfers.

- Equity. Intergovernmental transfers should promote the constitutional and governmental goal of ensuring that all South Africans have access to basic services. In effect, this means the provision of subsidised basic services to the poor.
- Efficiency. A new transfer system should promote allocative efficiency by ensuring that inter-jurisdictional fiscal competition is an effective check on fiscal performance. This, in turn, requires that where possible and appropriate, uniform equalisation measures should be introduced so as to ensure that local tax rates vary, because of variations in local service costs rather than disparities in tax rates.
- Spillover effects. A new transfer system needs to introduce a way of funding projects which have strong spillover effects. The provision of some public goods generates negative or positive externalities which may spill over into neighbouring jurisdictions.
- Facilitating democracy. A new transfer system needs to enable local authorities to build or acquire institutional and physical infrastructure and capacity.

The Department of Constitutional Development (1998c:section 3) points out the following six basic principles that must be borne in mind when the new system of intergovernmental transfers is implemented.

- Rationality. Rational arguments must be used to show how the new system will promote goals such as equity, economic growth and efficiency.
- Unlimited consequences should be limited. The system will not reward poor financial performance and failure on the part of municipalities to collect revenue.
- Transfers should be predictable. Without predictability, it becomes difficult for municipalities to budget properly, and borrowing becomes expensive.
- Transfers should promote accountable local government. Without this, municipalities would be absolved from having to justify their expenditure to their communities.
- Transfers need to be politically acceptable and support institution-building.
- Transfers should be simple, transparent and easy to understand.

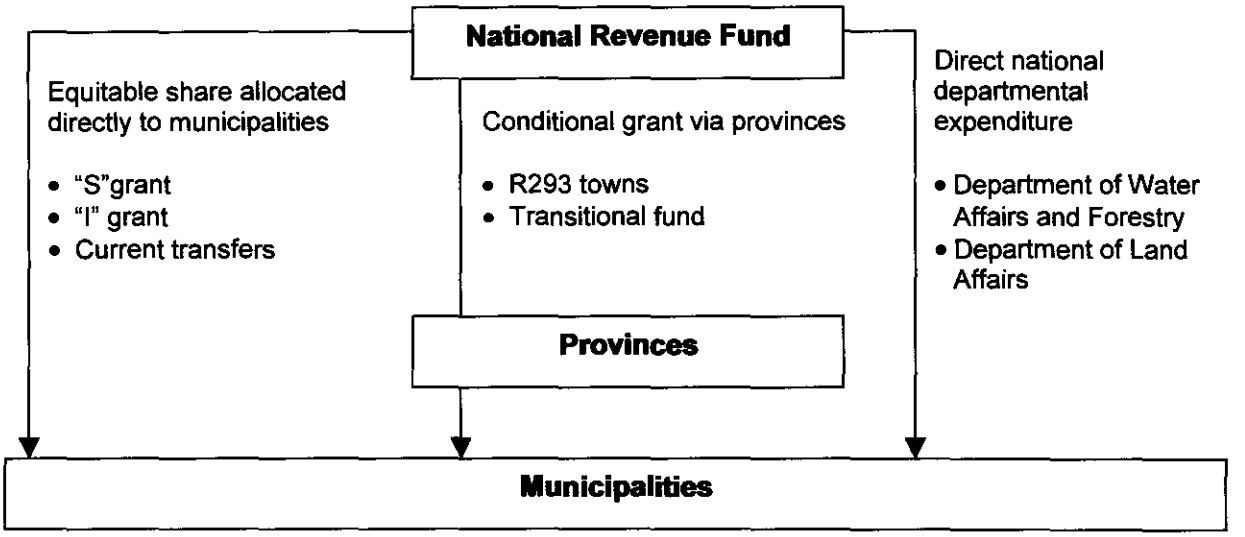
The four components of the new system are (Department of Constitutional Development, 1998c:section 4) the following.

- The municipal basic services transfer. It is called the "S" transfer and the aim of this transfer, is to make sure that poor residents in all local government areas also have access to basic municipal services such as water, electricity and sanitation. Poor people are those residents of a community who have a monthly household income of less than R800 per month (in 1998).
- The municipal institutions transfer or so-called "I" transfer. Funds will go to those municipalities that do not have the administrative capacity to raise their own revenue, or that perhaps do not have the basic infrastructure in place to function properly as municipalities.
- The tax-base equalisation transfer ("T" transfer) that aims to equalise the tax base in the cities. Only metropolitan councils with substructures will receive this transfer.
- The matching transfer, also called the "M" transfer, aims to help communities in a metropolitan area or district council to provide the essential infrastructure for services that have positive benefits, for residents of other communities in the same communities, in the same metropolitan area or district council.

The government proposed that the new system of formula-based transfers be phased in incrementally over a number of years. In addition, other transfers to local government will be phased out, and incorporated in the equitable share. The transfers that will be phased out, are the so-called R293 subsidies, the Transitional Fund, The Department of Water Affairs and Forestry subsidies and also the Department of Land Affairs subsidies.

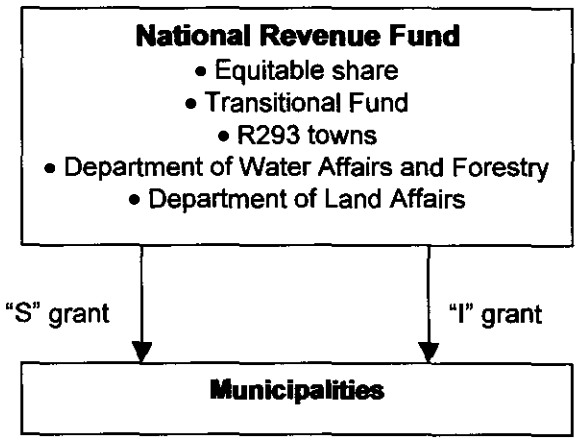
Figure 3.1 and 3.2 explain how the new system will be phased in. The figures reflect the situation in 1998/9, which is when the phase-in period started and the situation in 2004/5, which is when implementation of the new system will be completed.

Figure 3.1: Operating transfers to municipalities in 1998/99



Source: Department of Constitutional Development, 1998c:section 5

Figure 3.2: Operating transfers to municipalities in 2004/05



Source: Department of Constitutional Development, 1998c:section 5

The main implications of the new transfer system are the following (Department of Constitutional Development, 1998c:section 6).

- It will introduce greater consistency and predictability to the revenues of municipalities.
- It will provide municipalities (particularly the poorer ones) with the resources necessary to deliver basic services to poor households. It will also enable these municipalities to build an administrative infrastructure.

- Conversely, the impact of the new transfer system on the budgets of the "losers" will not be crippling, as these changes will be phased in fairly gently, and should give these municipalities sufficient time to make the necessary amendments.
- The largest of the formula aims to allocate an operating subsidy of R86 per month for each household earning less than R800 per month (in 1998). As this is an unconditional grant, it will be up to the municipalities to determine their own mechanisms for passing the subsidy on to the poor.

A local government's equitable share of national revenue should at no time be confused with the total share of national revenue flowing to local authorities. Substantial capital grants such as the CMIP funds, also flow to a local government, defined in constitutional terms as "additional conditional grants". The Intergovernmental Fiscal Review - IGFR (2001:131) states that the local government's equitable share provides general budgeting support to municipalities, while conditional grants support capital programmes and institutional needs.

The DPLG (2002:5-7) states that various structures exist to promote interaction and co-operation between the three spheres of government (including local government). Intergovernmental structures within the executive or implementing branch of government, are the following: the Intergovernmental Forum, the President's Co-ordinating Council, Intergovernmental Relations Committees of Ministers and Members of Provincial Councils, organised local government and the Forum for South African Directors-General.

3.3.2 LOCAL GOVERNMENT ALLOCATION TRENDS

Substantial resources are being made available to the local government sphere (284 municipalities) in the 2003 Budget, to provide for poverty relief, to extend the infrastructure delivery and to further strengthen the local government system through skills development and capacity building.

There has been a steady but significant real growth in national allocations since 1998/99, doubling from R4.4 billion to R8.8 billion in 2002/03. Table 3.2 shows the allocations increasing substantially in the 2002/03 budget, rising to an estimated R12 billion in 2003/04 and to an estimated R14.6 billion in 2005/06. This takes the local

share of nationally raised revenue from 3.6% in 2002/03 to 4.4% by 2005/06 (IGFR, 2003a:37).

Table 3.2: Transfers to local government

R million	2002/03	(%)	2003/04	(%)	2004/05	(%)	2005/06	(%)
Equitable share	**3 964**	**(45.0%)**	**6 343**	**(52.9%)**	**7 078**	**(53.4%)**	**7 698**	**(52.6%)**
Transition Grant	223		-		-		-	
Water and Sanitation Operating	700		836		858		934	
Subtotal equitable share and related	**4 887**	**(55.5%)**	**7 180**	**(59.8%)**	**7 936**	**(59.9%)**	**8 633**	**(59.0%)**
Consolidated Municipal Infrastructure Programme (CMIP)	1 671		2 246		2 724		3 016	
Water Services Project	999		1 102		948		1 037	
Community-Based Public Works Programme	260		260		-		-	
Local Economic Development Fund (LEDF)	111		117		-		-	
Sport & Recreation facilities	76		123		-		-	
National Electrification Programme	228		240		245		258	
Urban Transport Fund	40		9		-		-	
Integrated Sustainable Rural Development	32		-		-		-	
Municipal Infrastructure Grant (MIG)	-		47		117		97	
Unallocated[1]	-		-		555		588	
Subtotal capital	**3 416**	**(38.8%)**	**4 144**	**(34.6%)**	**4 588**	**(34.6%)**	**4 996**	**(34.2%)**
Restructuring Grant	250		315		343		363	
Financial Management Grant	154		212		199		208	
Municipal Systems Improvement	94		150		182		423	
Subtotal capacity building & restructuring	**498**	**(5.7%)**	**677**	**(5.6%)**	**724**	**(5.5%)**	**995**	**(6.8%)**
Total transfers to local government	**8 801**	**100.0%**	**12 001**	**100.0%**	**13 249**	**100.0%**	**14 624**	**100.0%**

1. Poverty relief allocations in 2004/05 and 2005/06 are subject to a Cabinet review and therefore unallocated

Source: Budget Review, 2003b:170

3.3.2.1 Unconditional equitable share transfers

A strong growth is experienced by the equitable share, as it increased from R1,9 billion in 1998/99 to R3.9 billion in 2002/03. It is expected to experience even more robust growth over the medium-term, as it is set to increase from R3.9 billion in 2002/03 to R7.7 billion in 2005/06. The unconditional equitable share grows in significance, from 45% of transfers to local government in 2002/03, to an estimated 53% in 2005/06. In

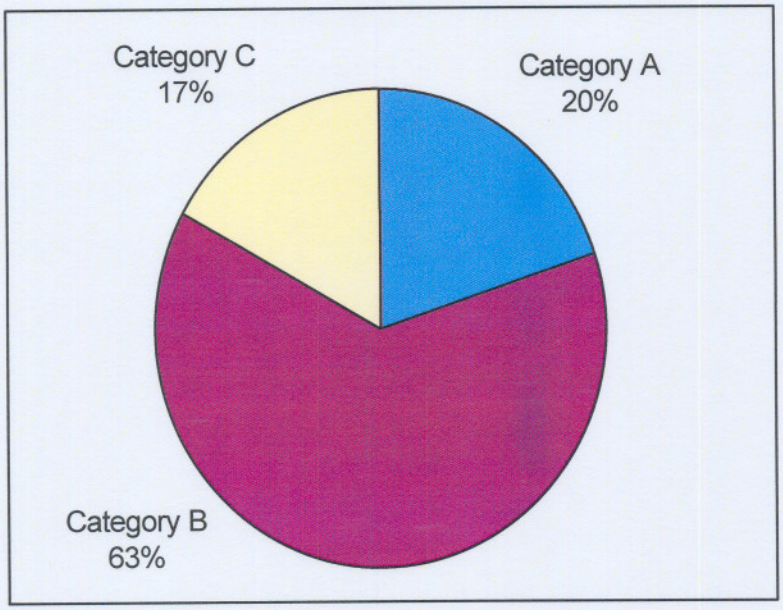
principle, the unconditional portion is set to grow relative to conditional grants in future, as the intergovernmental system matures.

The equitable share formula as already pointed out, was first introduced in 1998 in line with section 214 of the Constitution, to enable the local sphere of government to provide basic services such as water, sanitation, electricity and refuse removal. The formula favours poorer municipalities. The major window is the "S" component, which targets households with expenditure of less than R1 100 (2003) per month (IGFR, 2003a:39).

The shifts in functions between category B (231 local municipalities) and C (47 district councils) have necessitated small adjustments to the formula for the 2003 budget. The overall "S" grant of the formula is now split up as follows: 23.3% water supply, 41.9% electricity supply, 11.6% sanitation services and 23.3% refuse removal. As a result, the portion of the equitable share allocated to category C municipalities increases to about 17% in 2003/04, with a corresponding decline in the category B municipalities' share. The share for the category A (6 metropolitan councils) municipalities, remains unchanged at 20% in 2003/04, as they are not affected by the shift in municipal powers and functions (IGFR, 2003a:39).

Figure 3.3 sets out the distribution of the equitable share between different categories of municipalities for 2003/04. Approximately 38% of the equitable share is distributed to the 30 largest municipalities (measured in terms of budget), which house approximately 49% of the poor.

Figure 3.3: Distribution of the equitable share between categories of municipalities for 2003/04



Source: Budget Review, 2003b:173

Over the 2003/04 period, the equitable share has been supplemented with a R1.4 billion allocation for free electricity, and R2.7 billion for free basic water, sanitation and refuse removal services. These funds will flow to municipalities, either directly or through national department programmes and other agencies. Where other agencies provide these services, service level agreements will be negotiated.

3.3.2.2 Conditional infrastructure transfers

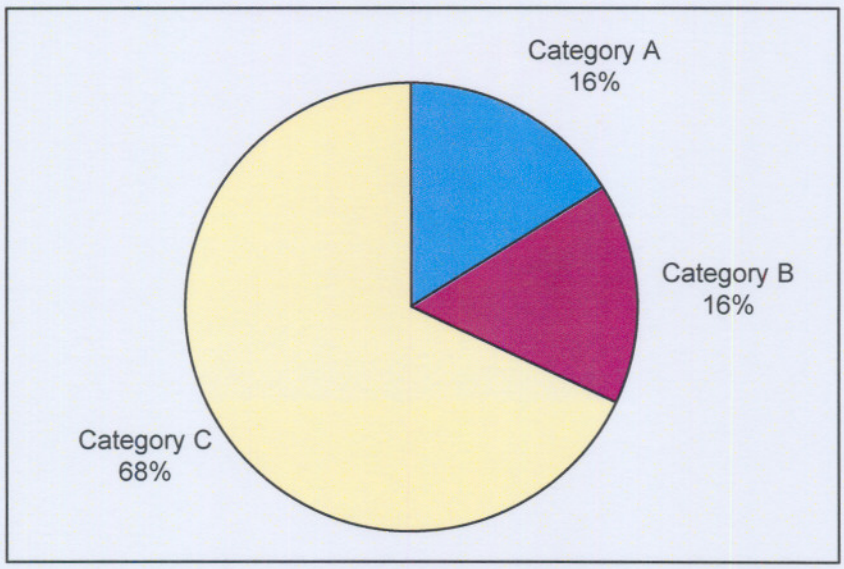
Infrastructure transfers to local government received a strong boost in the 2003 South African budget, geared principally towards expanding basic infrastructure services to poor households, infrastructure rehabilitation, and towards promoting job creation through labour-intensive delivery mechanisms. Increased allocations within municipalities, will prioritise urban and rural development nodes (Budget Review, 2003b:172).

The largest portion of infrastructure allocations is the CMIP which flows through the DPLG. The next largest grant flows from the Department of Water Affairs and Forestry, the Electrification Programme (managed by the Department of Minerals and Energy),

the LEDF, the Community-Based Public Works Programme and the Building for Sports and Recreation Programme. In the medium-term, the different grants are to be phased into a single grant programme, the MIG (IGFR, 2003a:38).

Figure 3.4 provides a breakdown of infrastructure grants by category A, category B and category C municipalities.

Figure 3.4: National infrastructure transfers for 2003/04



Source: Budget Review, 2003b:174

Table 3.2 shows grants for infrastructure increasing from R3.4 billion in 2002/03, to an estimated R4.1 billion in 2003/04. Total infrastructure transfers rise further to R4.6 billion in 2004/05 and R5 billion in 2005/06. The largest rise is in the CMIP grant, accounted for by R1 billion of additional expenditure spread over the Medium Term Expenditure Framework (MTEF), for labour-based infrastructure investment and services (Budget Review, 2003b:173).

The rise in infrastructure grants is likely to have a positive impact on expanding the municipal infrastructure and accelerating basic service delivery to areas most in need. In aggregate, infrastructure grants to local government increase at an annual average of 7.8% in real terms (Budget Review, 2003b:173).

For the medium-term, work is under way to rationalise infrastructure transfers to local government and to make the system of transfers simpler, predictable, more policy-

sensitive and fair. The phased transition to a formula-driven municipal infrastructure grant, referred to as the MIG, is under consideration. This grant will be created through the merger of the existing municipal infrastructure transfers listed in table 3.2. The consideration will be phased in over a three-year period, beginning with a R47 million allocation in 2003/04, which will be used to pilot the new MIG in selected municipalities (Budget Review, 2003b:173).

The grant is intended to assist municipalities to provide the basic municipal infrastructure and community services to low income households, and to promote economic development. It is also intended to resolve current problems of inequity in grant distributions, as well as flaws in financial accountability arrangements as identified during the implementation of past Division of Revenue Acts, and by the Auditor-General (Budget Review, 2003b:173).

Infrastructure grants to municipalities remain a key instrument in urban renewal and rural development (Budget Review, 2003b:169). The following are to be noted.

- The Municipal Infrastructure Programme has benefited 2.5 million people since 1997.
- The LEDF has contributed to 4 550 permanent and 9 050 temporary jobs to 2003.
- Between 1994 and 2001 a total of 1.2 million new electricity connections were made.
- Some 8.5 million people have gained access to improved water services, 105 000 toilets have been constructed and 670 000 people have benefited from water-related health and hygiene programmes.
- Sports facilities have been constructed or improved in 55 communities, providing about 2 200 job opportunities.

The total (equitable share and infrastructure grants) allocated to local governments in the 2003/04 financial year, amounts to just under R300 per person. Since many of the services supplied by municipalities take the "household" as the basic unit, this allocation translates into an average annual allocation of around R1 200 per household. Since municipalities direct these grants to poor households, this means that an even larger

allocation is provided per poor household, at around R3 700 (per annum) per poor household.

3.3.2.3 Recurrent transfers for capacity-building and restructuring

The third category of transfers to local government, provides for capacity-building initiatives, in line with the government's capacity-building strategy, and to give effect to skills development in planning, budgeting and financial management and technical skills. For example, Government has commenced with piloting budgeting and financial management reforms in 39 municipalities. A large portion of this component deals with restructuring assistance to municipalities (Budget Review, 2003b:174).

Larger cities have a significant impact on the regional and national economy. It is important that cities operate in an effective and efficient manner, and are able to generate sufficient revenues to deliver and extend services in their areas. The Restructuring Grant assists municipalities with large budgets with their restructuring process. Funding will be targeted towards the larger cities, in order to enhance macro-economic growth, revenue management, local economic development, effective and efficient service delivery and long-term sustainability.

Experience from financial management reforms in selected municipalities, indicates that proper preparation of budgets is critical for reforming operational systems and improving service delivery. The Municipal Financial Management Grant supports reforms presently being implemented in 39 pilot municipalities. In 2003/04, the allocation for the grant increases to R212 million. This will enable a further 31 municipalities to be added to the programme, offering opportunity for over 200 internships (Budget Review, 2003b:17&175).

Government has also entered into an agreement with the International Bank for Reconstruction and Development (IBRD) to provide technical assistance in implementing municipal financial management reforms. The programme is modelled in the spirit of municipal finance management reforms. The first phase has commenced with the placement of international advisers in nine municipalities. Rollout of the programme will be fast-tracked over the MTEF (Budget Review, 2003b:174&175).

A framework for the implementation of the Municipal Finance Management Act will be issued shortly after the formal adoption process. The implementation of the act, to be completed by mid-2007, will take cognisance of the uneven capacities of municipalities to implement financial reforms (Budget Review, 2003b:175). An interim framework has been adopted for aligning capacity-building initiatives into a consolidated grant by 2005/06. The framework prioritises planning, strategic management, service delivery skills and financial management reforms. Capacity-building grants to municipalities that flow through provinces, will be incorporated into the Municipal Systems Improvement Grant in 2005/06.

3.3.3 LOCAL GOVERNMENT BUDGET TRENDS

3.3.3.1 Municipal budgets

Unlike provinces, local governments have significant revenue raising powers. However, the high proportion of poor households in some municipalities presents serious challenges to the efforts of local government to realise their revenue-raising potential.

While transfers from national government comprise 17% of total local government revenue, the remainder should be raised through own revenue. This percentage is much higher for the smaller and predominantly rural municipalities, which typically receive 60% of their income in transfers (Budget Review, 2003b:171).

Municipal capital and operating budgets are estimated to total R74.5 billion in 2002/03, as compared to R64.4 billion in 2001/02, reflecting an increase of 15.7% (budget-to-budget growth). Capital budgets total R13.1 billion as compared to R11.7 billion in the previous financial year, showing an increase of 12%. Municipalities also budgeted R61.4 billion for operating income compared to R52.7 billion for the previous year, showing an increase of 16.5% (IGFR, 2003:29).

Table 3.3 gives an indication of local government budgets by category for 2002/03. The R46.7 billion total for the six metropolitan municipal budgets comprises 62.7% of total local government budgets for 2002/03. The low share of category C municipalities indicates that district municipalities provide relatively few services directly to residents.

Table 3.3: Local government budgets by category for 2002/03

R thousand	Operating Budget	Capital Budget	Total	As % of total	
				Operating Budget	Capital Budget
Category A (Metros)	39 733	7 006	46 739	85.0%	15.0%
Category B (Locals)	17 386	4 976	22 363	77.7%	22.3%
Category C (Districts)	4 310	1 125	5 435	79.3%	20.7%
Total	**61 429**	**13 107**	**74 536**	**82.4%**	**17.6%**

Source: IGFR, 2003a:32

3.3.3.2 Municipal expenditure

According to the IGFR (2003a:32&33), salaries take up the largest share of municipal budgets, totalling R19.8 billion in 2002/03, or 32% of operating expenditure. Total operating budgets for municipalities amount to R61.4 billion for the 2002/03 municipal year. Table 3.4 shows that a total of R15.3 billion was budgeted for expenditure for bulk purchases of electricity and water in 2002/03. A total of R29.3 billion was budgeted in 2002/03 for the "other" component, which includes repairs and maintenance, general expenditure, interest and redemption of loans and provisions for under-collection of revenue of the municipal operating budget for 2002/03.

Table 3.4: Consolidated municipal expenditure budgets

R billion	98/99	99/00	% change	00/01	% change	01/02	% change	02/03	% change	% of operating budget
Salaries	12.8	13.8	7.8%	15.9	15.2%	17.9	12.6%	19.8	10.6%	32.2%
Bulk services	12.8	13.8	7.8%	14.9	8.0%	13.7	9.0%	15.3	11.7%	24.9%
Other	15.6	16.9	8.3%	17.3	2.4%	21.1	17.3%	29.3	38.9%	47.8%
Operating budget	41.1	44.4	8.0%	48.1	8.3%	52.7	9.6%	61.4	16.5%	
Capital budget	13.7	13.7	0.0%	13.7	0.0%	11.7	-14.6%	13.1	12.0%	
Total	**54.8**	**58.1**	**6.0%**	**61.8**	**6.4%**	**64.4**	**4.2%**	**74.5**	**15.7%**	

Source: IGFR, 2003a:32

The budgeted allocations for capital for 2001/02, have grown from R11.7 billion to R13.1 billion in 2002/03. Of the R13.1 billion capital budget, 82% is for general infrastructure,

11% for other assets, 6% for community infrastructure and 1% for specialised vehicles (IGFR, 2003a:32).

3.3.3.3 Municipal revenue/income

Table 3.5 shows, that revenue for capital expenditure which is derived from national allocations form 39.3% of the budgeted local government capital funding requirement of R13.1 billion (in 2002/03).

Table 3.5: Consolidated municipal capital income budgets

R million	2001/02	(%)	2002/03	(%)	% increase
National transfers	3 947	33.5	5 160	39.3	30.7%
Internal advances, contributions from revenue, public contributions	4 935	41.9	4 908	37.4	-0.6%
Other financing, provincial contributions	1 166	9.9	1 361	10.4	16.7%
External loans	1 725	14.7	1 692	12.9	-1.9%
Total	**11 773**	**100.0**	**13 120**	**100.0**	**11.4%**

Source: IGFR, 2003a:34

Table 3.6 shows that the largest share of operating revenue is derived from user charges, mainly from electricity and water, totalling R28 billion or 45%. Property rates make up 20.2% of operating revenue, and Regional Service Council (RSC) levies on business, make up a further 7.1% or R4.4 billion. The remaining R16.7 billion is budgeted to be generated by refuse removals, grants, subsidies, tariffs, fines and other user charges.

Table 3.6: Consolidated municipal operating income budgets

R billion	2001/02	%	2002/03	%	% change
Property tax	11.5	21.2	12.5	20.3	8.6%
Bulk services	25.0	46.0	28.0	45.5	12.0%
RSC levies	3.9	7.2	4.4	7.1	12.8%
Intergovernmental grants	3.6	6.6	6.7	10.9	86.1%
Other	10.3	19.0	10.0	16.2	-0.1%
Total	**54.3**	**100.0**	**61.6**	**100.0**	**13.4%**

Source: IGFR, 2003a:25

3.3.3.4 Municipal borrowing

It is stated in the Budget Review (2002b:169), that to increase the pace of infrastructure delivery, financially well-managed municipalities should be able to borrow, and to repay loans from existing revenue streams such as intergovernmental transfers, municipal taxes or user tariffs.

The White Paper on Local Government (SA, 1998a) emphasised the importance of gearing in private investment and using capital markets. It also pointed out the need to define clearly the " ... rules governing intervention in the event municipalities experience financial difficulties". In 2000, Cabinet adopted a *Policy Framework for Municipal Borrowing and Financial Emergencies.* The Municipal Finance Management Bill includes such a framework.

Although borrowing from the private sector continues to be an attractive option for financing an infrastructure, it remains largely untapped. The municipal borrowing market has remained stagnant since 1994. At the end of December 2002, the total outstanding borrowing by municipalities amounted to R20.2 billion, marginally up by R300 million from that of a year earlier. The municipal borrowing market is also currently concentrated among a few lenders and larger urban municipalities. The main source of public sector credit to municipalities, is sourced from the DBSA and amounts to R7 billion (IGFR, 2003a:42).

The IGFR (2003a:42&43) states, that private sector credit, currently at R12 billion, accounts for 60% of municipal borrowings, primarily provided by commercial banks and the Infrastructure Finance Corporation. Together, these institutions account for 79% of the private sector market. Insurance and pension funds, which used to account for 35.3% of private sector lending to municipalities in 1997, now account for a mere 2.5% of private sector lending.

Securities used to be the main instrument of municipal borrowing. The DBSA increased its market share through mainly granting long-term loans to municipalities. As a result, securities declined from 68.3% to 35.9% in the period March 1997 to December 2002. The absence of tradable municipal securities, however, poses a challenge to the development of a municipal bond market.

A sample survey of pilot municipalities showed that over R14 billion or 70% of total municipal borrowing (estimated at R20 billion), is vested in 39 municipalities (IGFR, 2003a:43). As shown in Table 3.7, category A municipalities account for 93.4%, category B municipalities for 6% and category C municipalities for only a negligible percentage, with only five municipalities reporting having credit.

Table 3.7: Borrowings by category: pilot municipalities

R million	Current borrowings	Planned borrowings	No of municipal credit ratings
Category A (Metros)	13 236	1 000	4
Category B (Local)	851	223	1
Category C (Districts)	80	13	-
Total	**14 167**	**1 236**	**5**

Source: IGFR, 2003a:43

3.3.3.5 Local government budgetary challenges

The key budgetary challenges on local government level relate to aspects like revenue collection, leakage in service delivery, the need for improvement in financial management and quality of reporting.

Recent surveys by the DPLG have raised the issue of revenue collection by municipalities. The most recent reports suggest, that municipalities have accumulated R24.3 billion in outstanding debtor balances or unpaid consumer bills. This accumulation over the recent past, represents approximately 10% of the total operating budgets for the last five years. Annually, accumulated municipal debtor balances rise by about R1.8 billion, representing 3% of the total annual expenditure of municipalities (IGFR, 2003a:43).

Table 3.8 provides a national aggregate of outstanding consumer debtors as broken down by province and category of municipality for June 2002.

Table 3.8: Outstanding consumer debtors

R (thousands)	Category A (Metros)	Category B (Locals)	Category C (Districts)	Total
Eastern Cape	845 688	952 584	1 576	1 799 848
Free State	-	1 800 980	-	1 800 980
Gauteng	10 737 100	1 450 080	-	12 187 180
KwaZulu-Natal	1 832 880	1 169 430	53 834	3 056 144
Limpopo	-	331 470	-	331 470
Mpumalanga	-	800 283	-	800 283
Northern Cape	-	539 929	13 689	553 618
North West	-	917 960	5 460	923 420
Western Cape	1 699 250	625 174	9 911	2 334 335
Total	**15 114 918**	**8 587 890**	**84 470**	**23 787 278**

Source: IGFR, 2003a:44

Of the total outstanding consumer debtors, R15 billion (63.5%) is owed to metropolitan municipalities, more than R12 billion (51.3%) is owed to municipalities in Gauteng alone and a very small portion to district municipalities, because their main source of revenue is constituted of transfers and regional levies.

A holistic approach is required to address current problems. This includes improvements in customer care, accurate and timely billings, cleansing of internal systems, appropriate write-offs and the provision of appropriate levels of service. The piloting of new budget and accounting reforms, will correct several of these problems. These reforms must be supported by an appropriate and more effective indigent policy. Many municipalities have also taken appropriate steps to extend a minimum level of services to poor households, and also to provide free basic services (IGFR, 2003a:44).

As important as improving revenue collection systems, is the need for municipalities to reduce the technical and other losses in their water and electricity distribution function. A further problem facing municipalities, is to submit their financial statements on time (or at all). Another area in need of improvement, is the quality of non-financial and performance information, provided in annual reports (IGFR, 2003a:46).

Lastly, the Budget Review (2003b:171) states, that broadening the revenue base of local government, remains an important objective. A number of policy developments

are being considered to enhance the revenue raising capacity of local authorities. These include, among others, the following.

- The alignment of municipal fiscal powers and functions.
- A review of the RSC levies to overcome administrative, compliance and other inefficiencies.
- A review of the equitable share formula, primarily in light of new census data, and the need to give effect to government policy on addressing basic services.
- Changes to powers and functions between category B and C municipalities, as gazetted in January 2003.
- Tabling of the Property Rates Bill, to regulate the levying of property rates by municipalities.
- Restructuring of the electricity distribution industry and other service sectors.
- Implementation of the Municipal Finance Management Act and other legislative reforms to financial management, such as the borrowing powers of municipalities.

3.4 SUMMARY

There are several funds on national government level to promote LED. Government departments such as the Department of Provincial and Local Government (DPLG) and the National Treasury, are allocating conditional and unconditional grants to local governments for LED purposes. The equitable share transfers to local governments form more than 50% of the total national transfers. This unconditional grant is to empower municipalities to provide basic services to their citizens.

Transfers from the national government are growing in significance for local authorities. While these transfers comprise 17% (average) of total local government revenue, this percentage is much higher for the smaller rural municipalities, which typically receive 60% of their income from national transfers. A local authority's budget and fiscal transfers from the national government/budget are important tools for stimulating LED in a specific locality.

CHAPTER 4: SOCIO-ECONOMIC OVERVIEW OF THE EMA

4.1 INTRODUCTION

This chapter provides an analysis of some relevant socio-economic aspects of the research area, the EMA. The focus will be on aspects such as the EMA population, labour, poverty and also the state and performance of the economy of this locality in the former Vaal Triangle, in Gauteng. The analysis will be based mainly on information from Statistics South Africa (Stats SA) and their 2001 Census figures and on the research, surveys and statistics of Wharton Economic Forecasting Associates (WEFA), the VRG and Prof T.J.C. Slabbert.

As already mentioned in chapter 1, the EMA comprises the former Western Vaal Metropolitan Area – WVMA (for suburbs, see section 1.5.2 in chapter 1), the Vereeniging/Kopanong or Eastern Vaal Metropolitan Area – EVMA (for suburbs, see section 1.5.2 in chapter 1), the "Vaal Oewer" and a portion of the Vaal River Transitional Council.

Statistics before 2000 are available only for the Vaal Triangle Metropolitan Area (VTMA), which included the WVMA, the EVMA and even the Northern Free State Area of Sasolburg (Metsimaholo), Zamdela, Refenkgotso and Deneysville.

4.2 DEMOGRAPHIC PROFILE OF THE EMA

In the past various estimates were published regarding the size of the population in the EMA. WEFA (1999) estimated the 1999 population for the former EVMA and WVMA, which now forms the EMA, at 924 314 people. (The figure of 950 657 for the year 2000, based on the WEFA estimates, was commonly used in the EMA). However, it appears that this was an overestimation and that the new municipal boundaries for the EMA (excluding Meyerton) as determined by the Municipal Demarcation Board, also resulted in a change in the population figures. Based on the 1996 Census, the Municipal Demarcation Board estimated the population for the EMA at 597 948 for the year 2001 (Municipal Demarcation Board, 2001).

Stats SA, in its latest (2003) release as based on the 2001 Census, estimates the population within the new municipal boundaries of the EMA at 658 422 for October 2001 (Stats SA, 2003). The EMA suburbs and population numbers are given in Table 4.1.

Table 4.1: The EMA population for 2001

Boipatong	16 868	Sebokeng	222 044
Bophelong	37 779	Sharpeville	41 031
Evaton	143 152	Tshepiso	22 952
Rural areas	4 378	Vanderbijlpark	80 201
Orange farm (Stretford)	16 727	Vereeniging	73 288

Source: Stats SA, 2003

According to WEFA (1996) population statistics, the EMA (basically the former WVMA and the EVMA – excluding Meyerton) has experienced a rather high average annual population growth rate of 2.85% p.a. since 1990, compared with the national population growth rate of 2.4% p.a. (Slabbert, 2001a:3).

Based on the population estimates of Stats SA (2003) for the EMA, the population of the EMA grew at an average annual growth rate of 1.95% between 1996 and 2001, as compared to a national 2.0% (calculated from Stats SA, 2003). The economic decline in the Vaal Triangle and the high unemployment rate probably made it a less attractive area to settle after 1996. The growth rate for Gauteng is estimated at 3.75% between 1996 and 2001 (calculated from Stats SA, 2003).

The total number of households in the EMA is 187 044. The average household size in the EMA is calculated at 3.52, as compared to the national figure of 3.8 persons per household. Gauteng has the lowest average household size of all the provinces, with 3.2 persons per household (calculations based on Stats SA, 2003).

Table 4.2: Summary of EMA demographics in 2001

Total	658 422
Households	187 044
Growth rate	1.95% p.a.
Dependency ratio	3.29
No education	19.8%

Source: Adapted from Stats SA, 2003 & Slabbert, 2001a:2-4

Dependency ratios are calculated by dividing the total number of non-income earners by the total number of income earners (Perkins *et al.*, 2001:256). Based on the household survey data of the VRG (1999, updated), the dependency ratio in the EMA is estimated at 3.41 if informal earners are included in the number of income earners. The dependency ratio in the EMA increased from 2.77 in 1994 to 3.41 in 2000. This means, that more and more people depend economically on each earning person every year. The causes of this high dependency ratio in the EMA, are related to an increase in the unemployment rate. According to calculations based on the data provided by Stats SA (2003), the dependency ratio for the EMA was 3.29 for 2001.

Based on survey data of the VRG (1999, updated), 19.8% of the EMA population had had no education in 2000. According to the Municipal Demarcation Board (2001), this figure was 22.5% for 1996. A total of 67.7% of the total EMA population, had an education level of grade 3 and higher and 22.8% had a grade 10 or higher qualification. The average number of pupils per school in the EMA in 2000 were 936 and the average number of pupils per teacher 47. Comparing these literacy statistics with those of previous years and also with national statistics, it can be concluded, that the literacy situation in the EMA is improving and that the level of literacy in the EMA is slightly higher than national figures (VRG, 2002:21).

4.3 LABOUR ASPECTS OF THE EMA

Table 4.3 and figure 4.1 show some relevant labour statistics in the EMA for 2001. Of the 658 422 people in the EMA, 344 732 (52.4%) were economically non-active in 2001 and 313 690 (47.6%) were part of the economically active population/labour force.

A total of 153 655 (49%) of the economically active population of 313 690 in 2001, were employed, while 160 035 (51%) were unemployed. Stats SA (2000) officially defines unemployment as those people within the economic active population who –

a) did not work during the seven days prior to the interview;

b) want to work and are available to start within a week of the interview; and

c) had taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.

These general criteria are translated into statistically meaningful criteria, namely –

- the population of potential working age (i.e. 15 years and older);
- the economically non-active (i.e. those who prefer not to, or who cannot work – for instance housewives, persons 65 years and older and the disabled); and
- the economically active population (all those who are fit to work, wish to work, have no employment and are ready for and actively looking for work, plus the employed and self-employed).

In the survey for this section only one criterion was taken as an indication of seeking work, namely if a person "has the desire to work and to take up employment or self-employment". The question asked was simply: "Do you want to work?" When the standard Stats SA definition is used, but its strict criteria are relaxed – as was done in this survey – it is referred to as an expanded definition of unemployment. The expanded definition includes a) and b) but not c) (Stats SA, 2000).

The unemployment rate (Ur-expanded definition) then for the EMA, is calculated at 51% from the 2001 census data (Stats SA, 2003).

$$Ur = \frac{\text{number of unemployed}}{\text{economically active population (EAP)}} \times \frac{100}{1}$$

$$= \frac{160\,035}{313\,690} \times \frac{100}{1}$$

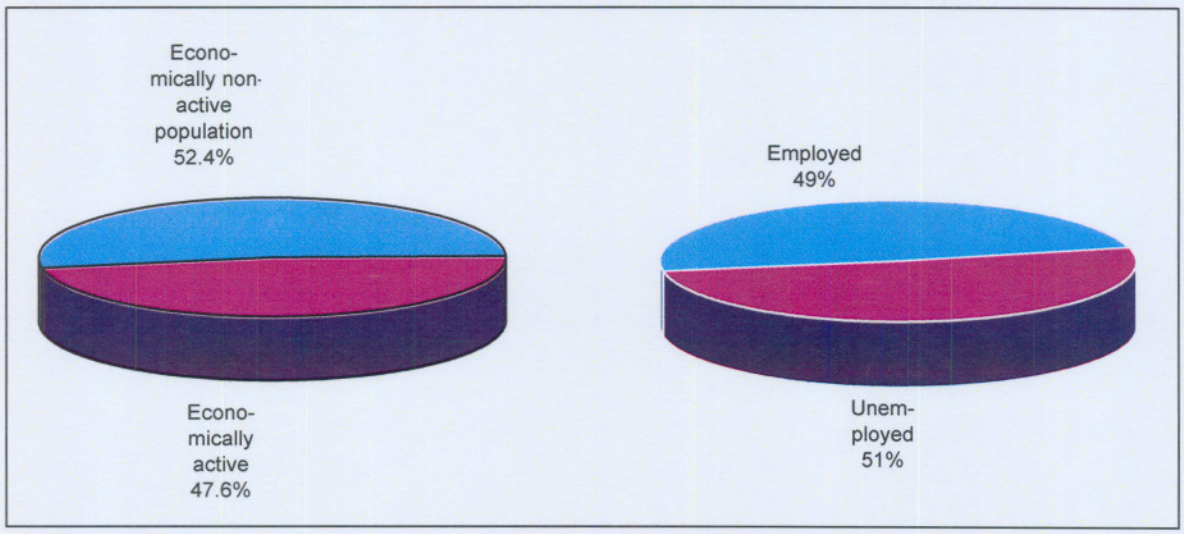
$$= 51\%.$$

Table 4.3: Labour force of the EMA in 2001

Activity	Numbers	Comparison of percentages (population and economically active)	
		Census 2001	VRG survey data 1999
POPULATION	658 422	100.0%	100.0%
Less: Persons 0-14 years & 65+ years of age & the disabled & economically non-active population	344 732	52.4%	53.4%
ECONOMICALLY ACTIVE	313 690	47.6% (100%)	46.6% (100.0%)
Employed	153 655	23.3% (49%)	22.7% (48.7%)
Unemployed	160 035	24.3% (51%)	23.9% (51.3%)

Source: Calculated from Stats SA, 2003 & VRG survey data, 1999

Figure 4.1: Economically active population of the EMA in 2001



Source: Calculated from Stats SA, 2003

This abnormal high unemployment figure in the EMA cause highly negative socio-economic consequences for the EMA. It also stresses the importance of LED and the creation of job opportunities in the EMA. The EMA in recent years was characterised by a loss of employment opportunities in certain sectors and, therefore, an alarming increase in the unemployment rate. Table 4.4 and figure 4.2 show the trends in unemployment in the Vaal Triangle Metropolitan Area (VTMA) from 1993 to 1998, and

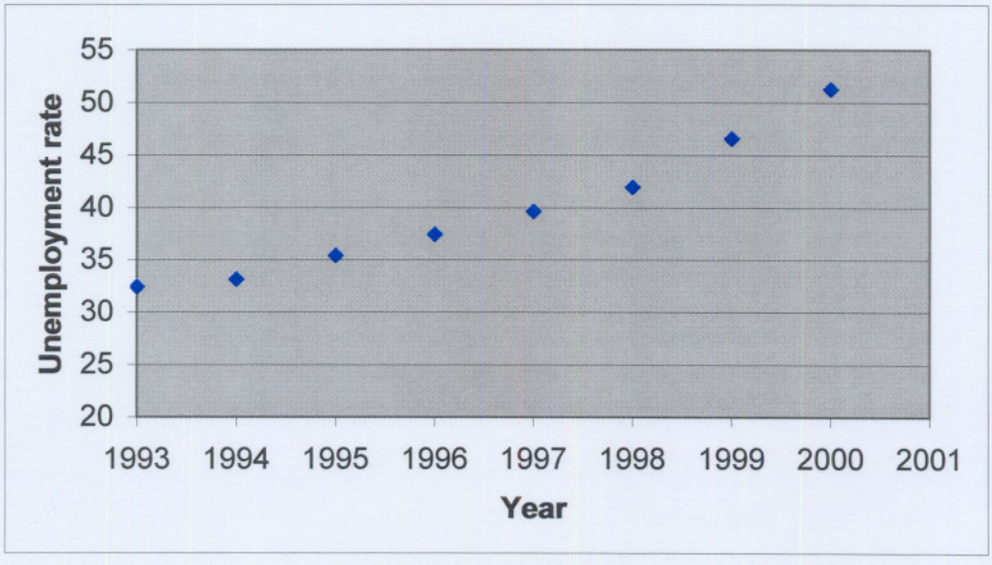
includes estimates for the EMA for 1999 and 2000. The unemployment rate increased from 32.5% in 1993 for the VTMA, to 51.3% in 2000 for the EMA.

Table 4.4: Trends in the VTMA and EMA unemployment from 1993–2000

	1993	1994	1995	1996	1997	1998	1999	2000
	VTMA	VTMA	VTMA	VTMA	VTMA	VTMA	EMA	EMA
Unemployed as % of population	13.5	13.8	14.7	15.6	16.5	17.4	20.6	23.9
Unemployment rate	32.5	33.2	35.5	37.5	39.7	42.0	46.6	51.3

Source: Slabbert, 2001a:5

Figure 4.2: Unemployment rate of the VTMA and EMA from 1993–2000



Source: VRG, 2002:27

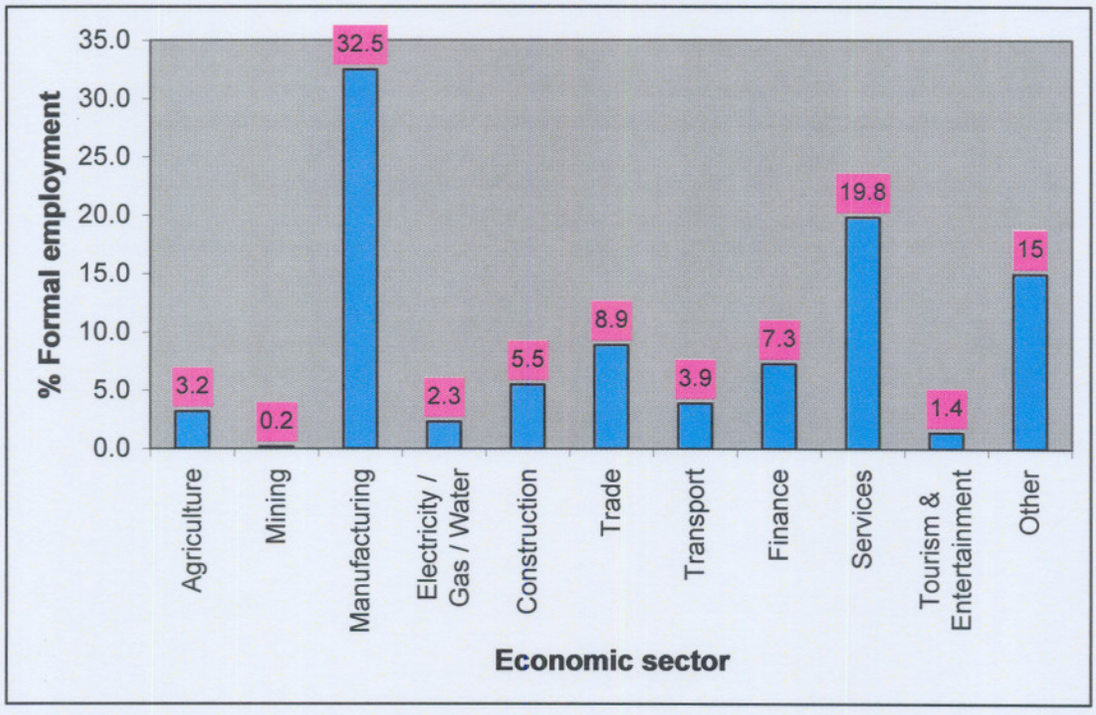
Table 4.5 and Figure 4.3 show the formal employment profile of the EMA as based on the research and surveys of WEFA (1999) and the VRG (1999, updated). A high occurrence of labour is involved in manufacturing (32.5%), trade (8.9%) and service-oriented and other activities – including government (34.8%). According to the Census 2001 statistics, the formal employment profile of the EMA showed an employment rate of 22.2% in the manufacturing sector, 15.9% in the wholesale and retail trade and 19.7% in community, social and personal services (calculations based on Stats SA, 2003 & Municipal Demarcation Board, 2003).

Table 4.5: Formal employment profile of the EMA in 2000

ECONOMIC SECTOR	EMPLOYMENT	PERCENT (%)
Agriculture	4 959	3.2
Mining	301	0.2
Manufacturing	**50 361**	**32.5**
Electricity / Gas / Water	3 564	2.3
Construction	8 523	5.5
Trade	13 846	8.9
Transport	6 043	3.9
Financing	11 312	7.3
Services	30 620	19.8
Tourism and entertainment	2 176	1.4
Other	23 243	15.0
TOTAL	**154 957**	**100.0**

Source: WEFA, 1999 and VRG, 1999 (updated)

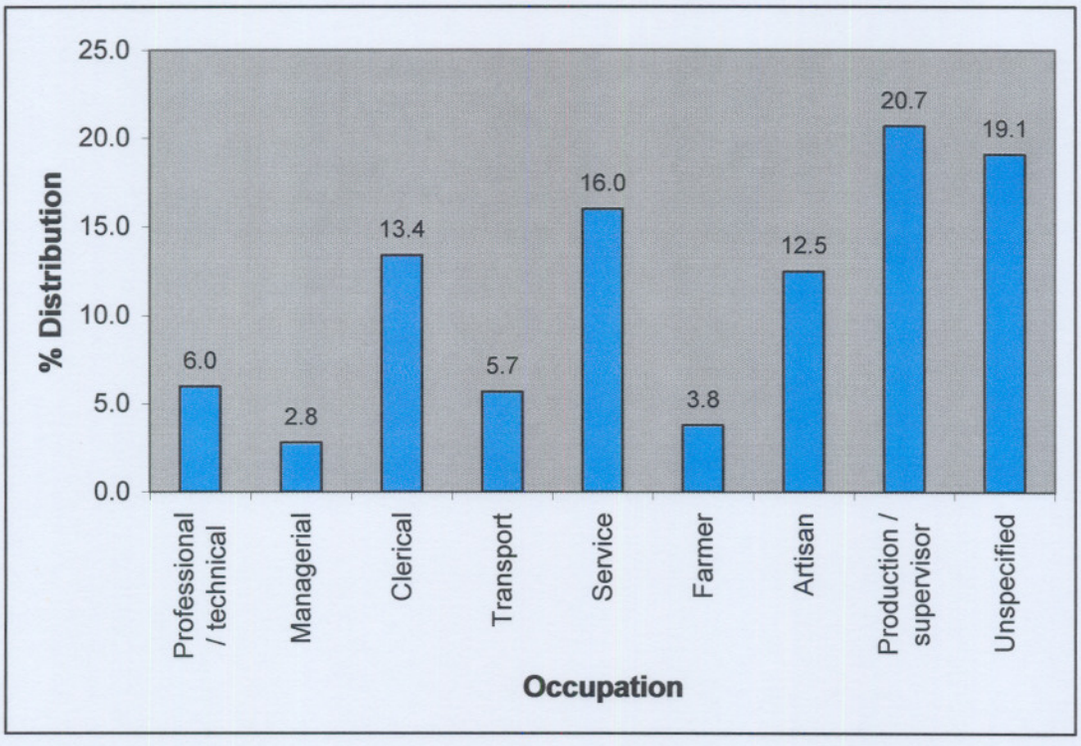
Figure 4.3: Formal employment profile of the EMA in 2000



Source: WEFA, 1999 and VRG, 1999 (updated)

Figure 4.4 gives an occupational profile of the employed (formal sector) people of the EMA. A total of 62.6% of the workers are involved in artisan, services, production and clerical-related occupations. This is typical for a locality with a strong industrial base, such as the economy of the EMA. Only 8.8% of the people are involved in professional and managerial occupations.

Figure 4.4: Occupational profile of the formally employed workers of the EMA in 2000



Source: VRG, 2002:30

The average household income for 2000 in the EMA was estimated at R3 083 per household per month. Salaries and wages contribute 75.4% to the average household income, informal activities 6.7%, pension 9.7%, remittances 2.1% and other income 6.1%. The most important expenditure item of the households in the EMA, is food (18.6%). Other important expenditure items are housing (13.9%), transport (7.5%) water and electricity (7%), clothing (6.8%) and car and loan payments 6.5% (VRG, 2002:32-36).

4.4 POVERTY IN THE EMA

4.4.1 THE HEADCOUNT INDEX

An objective definition of poverty is surprisingly hard to formulate. Poverty is not just a matter of absolute income; it also implies something about relative income. In social terms, the poor are those who must live below what most people in a particular time and place regard as the minimum acceptable standard.

Those interested in measuring the degree and incidence of poverty in a country, usually begin by drawing a poverty line. Ideally, this line is defined in terms of household income per capita. Households with per capita incomes below the poverty line, are defined as poor. The simplest and most common measure of poverty is the percentage of all households that are poor. This is called the poverty head count (Perkins *et al.*, 2001:124). Deaton (1994:122) defines the headcount index as the fraction of the population existing below the poverty line.

More complex measures of poverty also take account of the extent to which the income of the poor falls below the poverty line. A reduction on poverty then can mean either that the percentage of poor households falls or that the absolute income of the poor rises.

The headcount index for the EMA for the year 2000 was 0.461. This implies that 46.1% of the households' income was below their respective poverty lines. By calculating each household's poverty line (called the household subsistence level – HSL) and comparing that with its own income, the distribution of households below (and above) their poverty lines, can be determined. The results are listed in table 4.6 (VRG, 2002:36&37).

Table 4.6: Percentage of households in different income categories expressed as a percentage of their HSL: EMA in 2000

	Household income as percentage of the HSL	Percentage households	Cumulative percentage
A	0 – 50	24.3	24.3
B	51 – 100	21.8	46.1
C	**101 – 150**	**10.4**	**56.5**
D	151 – 200	10.0	66.5
E	201 – 300	11.9	78.4
F	301 – 400	5.6	84.0
G	401 – 500	3.2	87.2
H	501 – 600	3.9	91.1
I	601 +	8.9	100.0
	Total	**100.0**	

Source: VRG, 2002:38

The HSL covers only basic items such as food, clothing, rent and transport. It is estimated, that households spend two thirds of their income on these basic items, while one third is spent on other necessary items such as medicines. If this is included, one speaks of the household effective level (HEL), which is one and a half times the HSL.

The following conclusions can be made from Table 4.6.

- The percentage of households receiving an income less than their respective HSLs (households living in poverty) is 46.1% in the EMA (row A and B).
- The percentage of households receiving an income above their respective HSLs, but less than the HEL, is 10.4% (row C).
- The percentage of households receiving an income less than the HEL is 56.5% (rows A, B and C).
- The percentage of households receiving an income above the HEL, is 43.5%.

Table 4.7 gives a more detailed analysis of households whose incomes were less than their specific HSL (poverty line). The table reveals, that as much as 52.6% of the poor households in the EMA, receive incomes that are less than 50% of their poverty lines.

Table 4.7: Poor households' income as a percentage of their HSL: EMA in 2000

	Household income as percentage of the HSL	Percentage households	Cumulative percentage
1	0 – 10	12.6	12.6
2	11 – 20	6.3	18.9
3	21 – 30	7.4	26.3
4	31 – 40	6.8	33.1
5	41 – 50	19.5	52.6
6	51 – 60	9.5	62.1
7	61 – 70	8.4	70.5
8	71 – 80	9.0	79.5
9	81 – 90	12.6	92.1
10	91 – 100	7.9	100.0
	TOTAL	**100.0**	

Source: VRG, 2002:39

4.4.2 POVERTY GAP OF POOR HOUSEHOLDS IN THE EMA

In order to determine the degree of poverty, the so-called poverty gap measure is used in conjunction with the headcount index. Slabbert (2001b:10) states that the poverty gap measures the average shortfall of the income of the poor from the poverty line. The poverty gap index for the EMA was calculated at 0.414 in 2000. This means, that on average, the poor households have a shortage equal to 41.4% of their specific poverty lines. If a household's poverty line is R1 000 and the total income of the household is R586, then the shortfall is R414 (a poverty gap ratio of 0.414).

According to the VRG (2002:40&41), the number of households in the EMA below their respective poverty lines was estimated at 95 314 in 2000. This represents 46.1% of the households in the EMA. The average poverty gap per household per month is R462 and R5 546 per year for the year 2000.

4.4.3 PROFILE OF THE POOR IN THE EMA

The profile of the poor in the EMA is based on two household surveys done by the VRG in 1999/2000 and 2001. Conclusions include the following (VRG, 2002:144-146).

- A total of 42.8% of all households and 45.3% of the total population in the EMA, are poor.
- The average household size for the poor constitute 4.7 persons, as compared to 4.3 for the non-poor.
- Poor households have a smaller percentage fathers than non-poor households and the poor fall in younger age categories than do the non-poor.
- The poor have less schooling and qualifications than the non-poor.
- The poor in most cases had formerly been employed in the construction, trade, transport and service sectors – i.e. they are mostly construction workers, taxi drivers and shop attendants.
- The average household income for the poor is R658 per month, while it is R4 764 per month for the non-poor households.
- The unemployment rate for the poor is 66.8% and the dependency ratio is 6.2.

4.4.4 THE 1998 POVERTY AND INEQUALITY REPORT

The 1998 Poverty and Inequality Report, and especially some of the characteristics of poor people in South Africa, can be of some relevance to poverty in the EMA (May, 1998).

- In Gauteng the poverty rate was estimated at only 17%, which is much lower than that of the EMA poverty rate.
- The rural areas contain 72% of those members of the total South African population who are poor.
- A total of 61% of Africans are poor and the poverty rate among female-headed households is very high at 60%.
- The poverty rate among people with no education is 69% and 55% of the economically active population from poor households, are unemployed.

4.5 THE EMA ECONOMY

4.5.1 THE EMA ECONOMY IN A PROVINCIAL CONTEXT

Gauteng is the richest province in South Africa. With 18.1% of South Africa's population (Stats SA, 2002:6), it contributes almost 40% to this country's gross domestic product (GDP). The EMA economy forms an integral part of the Gauteng province and is characterised by a high degree of interdependence with the other sub-regions in Gauteng, like Johannesburg and Pretoria.

The sub-regional contribution of the different regions in Gauteng (as a percentage of the gross geographical product – GGP, of Gauteng) is shown in Table 4.8 and Figure 4.5. Sasolburg (as part of the VTMA) is included in the statistics up to 1995. It is excluded from the 2000 EMA statistics.

Table 4.8: The EMA and other sub-regions contribution to Gauteng's GGP from 1970-2000

SUBREGION	1970	1975	1980	1985	1990	1995	2000
VTMA/EMA	**6.7**	**8.5**	**9.1**	**7.6**	**8.3**	**8.4**	**6.0**
Pretoria	16.6	18.0	17.3	19.6	21.0	21.6	22.7
Johannesburg	43.3	36.6	33.0	33.1	32.5	32.9	36.7
Rest of Gauteng	33.4	36.9	40.6	39.7	38.2	37.1	34.6
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

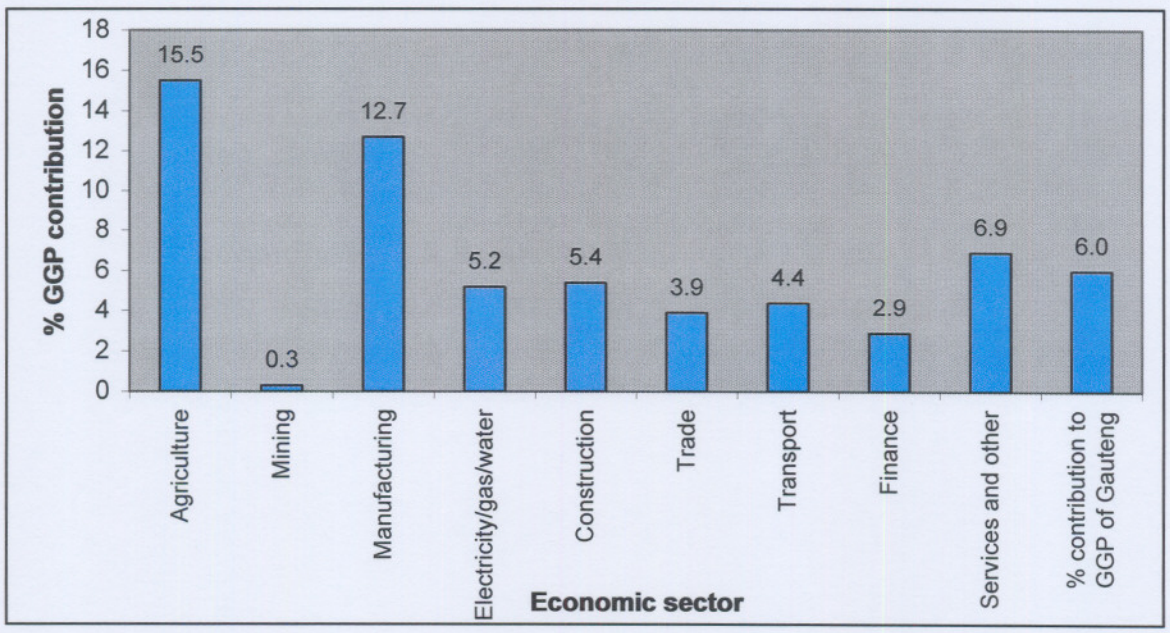
Source: WEFA, 1996 and 1999 (updated)

Table 4.9: Percentage contribution of the EMA economy to the GGP of Gauteng in 2000

	EMA	Pretoria	Johannes-burg	Rest of Gauteng	TOTAL
Agriculture	15.5	18.3	7.4	58.7	100.0
Mining	0.3	1.7	5.2	92.7	100.0
Manufacturing	**12.7**	**16.4**	**31.7**	**39.2**	**100.0**
Electricity/Gas/Water	5.2	15.6	33.1	46.1	100.0
Construction	5.4	22.1	39.9	32.6	100.0
Trade	3.9	22.5	44.8	28.8	100.0
Transport	4.4	25.4	35.7	34.5	100.0
Financing	2.9	21.8	50.6	24.7	100.0
Services & Other	6.9	35.2	26.5	31.3	100.0
Percentage contribution of the EMA to the GGP of Gauteng	**6.0**	22.7	36.7	34.6	100,0

Source: Calculations based on WEFA data, 1999 (updated)

Figure 4.6: Percentage contribution of the EMA economy to the GGP of Gauteng in 2000



Source: Calculations based on WEFA data, 1999 (updated)

4.5.2 THE EMA ECONOMY IN A LOCAL CONTEXT

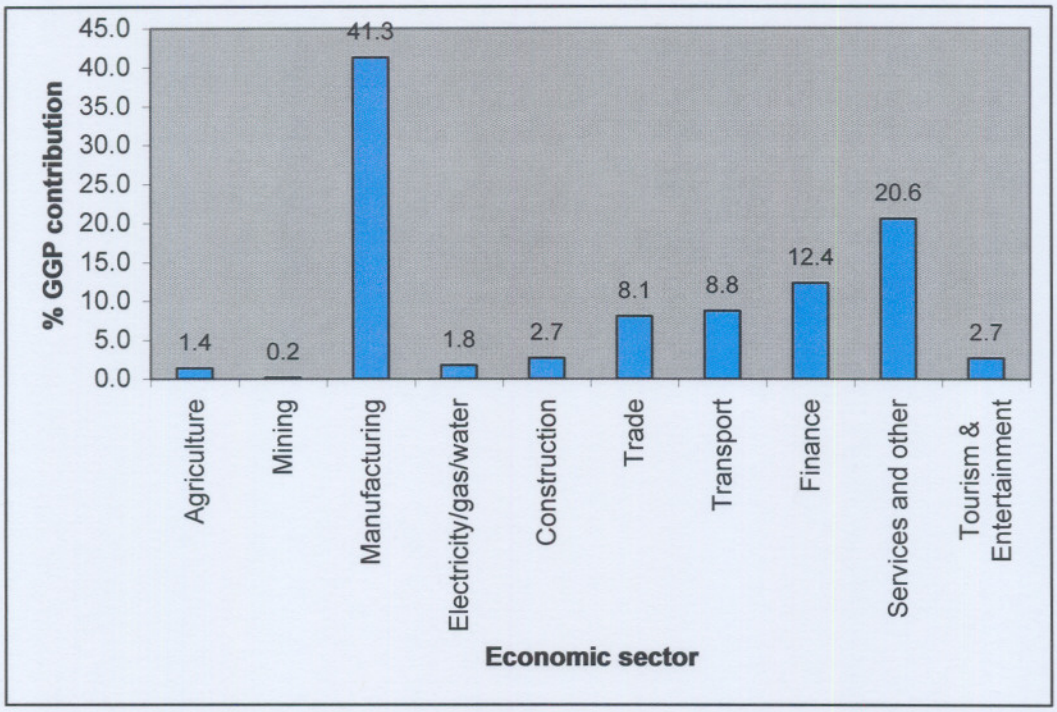
The manufacturing sector is the single largest economic sector and activity in the EMA. The economic structure of the EMA for 2000 is set out in Table 4.10 and Figure 4.7.

Table 4.10: Economic structure of the EMA: GGP contribution in rand (million) and percentage in 2000

	1990	%	2000	%	% Growth per annum
Agriculture	180	1.6	243	1.4	3.0
Mining	54	0.5	39	0.2	-3.2
Manufacturing	**5 486**	**50.0**	**6 980**	**41.3**	**2.4**
Electricity/Gas/Water	526	4.8	303	1.8	-5.2
Construction	330	3.0	457	2.7	3.5
Trade	1 020	9.3	1 367	8.1	3.8
Transport	359	3.3	1 482	8.8	15.2
Financing	1 407	12.8	2 094	12.4	4.0
Services and Other	1 611	14.7	3 485	20.6	9.0
Tourism & Entertainment	-	-	448	2.7	-
TOTAL	**10 973**	**100.0%**	**16 898**	**100.0%**	**4.5**

Source: Calculations based on WEFA data, 1999 (updated)

Figure 4.7: Economic structure of the EMA: GGP percentage contribution in 2000



Source: Calculations based on WEFA data, 1999 (updated)

4.5.2.1 Primary sector

The agricultural and mining sectors are contributing only 1.6% to the total EMA economy. While the agricultural activities are still growing, there is a decline in mining activities in the EMA.

4.5.2.2 Secondary sector

Secondary activities consist of three sub-sectors, namely manufacturing, electricity/gas/water and construction. This sector is still the most dominant sector in the EMA, with a percentage contribution of 45.8% to the total economic activities of the EMA.

Manufacturing (41.3% of the EMA economy) is by far the most important individual sector of the EMA economy. Table 4.11 indicates that the manufacturing of metal, metal products and machinery (mainly iron and steel industry) dominates the manufacturing sector in the EMA. It is responsible for 80.6% of all manufacturing

activities in this locality. This highlights the strong dependence of the EMA economy on these economic activities.

Table 4.11: Industrial activities of the EMA in 2000

Activity	Percentage share in manufacturing's GGP contribution
Food, drink and tobacco	3.5
Textiles, clothing and footwear	1.8
Fuel, petroleum and rubber products	3.1
Other non-metallic mineral products	5.9
Metal, metal products and machinery	**80.6**
Electrical machinery & electronic appliances	2.8
Transport equipment	1.3
Furniture	1.0
TOTAL	100.0

Source: Calculations based on WEFA data, 1999 (updated)

4.5.2.3 Tertiary sector

Tertiary activities consist of a wide variety of activities and sectors such as trade, transport, financing, services (including government services) and also tourism/entertainment. The tertiary sector's percentage share of the EMA economy was more than 50% in 2000. The transport and services sectors are experiencing relatively high growth rates. The tourism/entertainment sector currently contributes a relatively small amount to the GGP of the EMA economy. There is the general consensus in this locality, that the tourism industry has considerable economic potential and, therefore, has the potential to increase its share gradually in the EMA economy in the next couple of years (Slabbert, 2001a:15).

4.5.3 FUNCTIONAL SPECIALISATION IN THE EMA

The functional specialisation refers to those urban functions and economic activities in which the area or sub-region specialises. Table 4.12 shows the functional specialisation and economic base of the Vanderbijlpark and Vereeniging areas of the

EMA. The EMA, and especially the Vanderbijlpark area, is considerably dependent on the basic iron and steel industry.

Table 4.12: Functional specialisation of the EMA'S urban areas

AREA	FUNCTIONAL SPECIALISATION	ECONOMIC BASE
EMA: **Vanderbijlpark**	Basic iron and steel, heavy metal, engineering work-shops, tertiary education, recreation/tourism, regional shopping.	Large but smaller than Vereeniging. The economic base is less diversified and specialises in basic iron and steel manufacturing.
EMA: **Vereeniging**	Heavy metal, ceramics, engineering workshops, water-based recreation/ tourism, government services and higher order regional shopping centre.	Large, relative more diversified but specialised in manufacturing.

Source: Slabbert, 2001a:15

4.6 SUMMARY

The EMA is currently experiencing abnormal and high unemployment and poverty rates in comparison with provincial and national figures. Unemployment has a strong relationship with poverty in the EMA.

The EMA's contribution to Gauteng's GGP is 6%. The manufacturing sector's share is declining in terms of the economic structure of the EMA. However, it still forms more than 40% of the economic activities of the EMA. Metal, metal products and machinery represent 81% of industrial activities of the EMA. This highlights the strong dependence of the EMA on these activities.

The structural weaknesses and problems of the EMA economy, highlight the importance and urgency of the formulation and implementation of LED strategies in the EMA.

CHAPTER 5: AN ANALYSIS OF LED IN THE EMA

5.1 INTRODUCTION

LED in an EMA context will be investigated and analysed in this chapter. The first part of the chapter will focus on all the LED roleplayers/stakeholders and initiatives in the EMA. The purpose is to give some overview of organisations/institutions/groups involved in LED in the EMA at the moment, and also relevant initiatives in this regard.

The most important roleplayer in LED in a specific locality, is the local authority. The second part of the chapter will, therefore, focus on the Emfuleni Local Municipality's (ELM's) role with LED in the EMA. Aspects like the ELM's LED strategies and financing will be addressed. An application of the theoretical and South African perspectives in Chapters 2 and 3 will be given in a regional (EMA) context. Lastly, a summary of the chapter will be given.

5.2 LED ROLEPLAYERS AND INITIATIVES IN THE EMA

Since the early 1990s, manufacturing activities in the EMA have decreased considerably. Several initiatives have been initiated in an effort to revive the economy. The different initiatives on their own have led not only to a duplication of efforts, but also to questionable results. It is important that these efforts are combined and co-ordinated, because all of them are related to one another in some way or another. This section addresses some of the main initiatives and roleplayers that have emerged in recent times and that are LED-related.

5.2.1 THE "PUK" LEADERSHIP SUMMITS AND THE VAAL ECONOMIC REGENERATION BOARD (VERB)

Over the past few years, the Potchefstroom University (Vaal Triangle Campus in Vanderbijlpark) with its Leadership Summits, has attempted to form a type of leadership structure in the Vaal region (and therefore, the EMA). The main purpose of these summits, was to save and revive the local economy and to focus on job creation in the region. It was at first especially the leaders of industry who were interested in these initiatives to save and revive the local economy.

The main recommendations of these summits were the following (Slabbert & Dorfling, 2001:38).

- Manufacturing such as downstream enterprises and low-technology SMMEs, should be encouraged.
- The river should be utilised more effectively.
- The overall environment should be made more attractive.
- The region should be marketed properly on national, provincial and local levels.
- More support from government is needed.
- A serious need for the synchronisation and co-ordination of existing research activities and other development initiatives in the Vaal Triangle exists.

Slabbert & Dorfling (2001:77) state that since the 2000 local government elections, the local governments showed serious interest in working together with local business and industry. The stakeholders realised more and more, that they will need to work together in order to succeed in regenerating the Vaal economy. The establishment of VERB was then recommended. The role of VERB was, to act as an authority to stimulate economic development in the Vaal Triangle (mainly the EMA, but also in the Sasolburg and Meyerton areas).

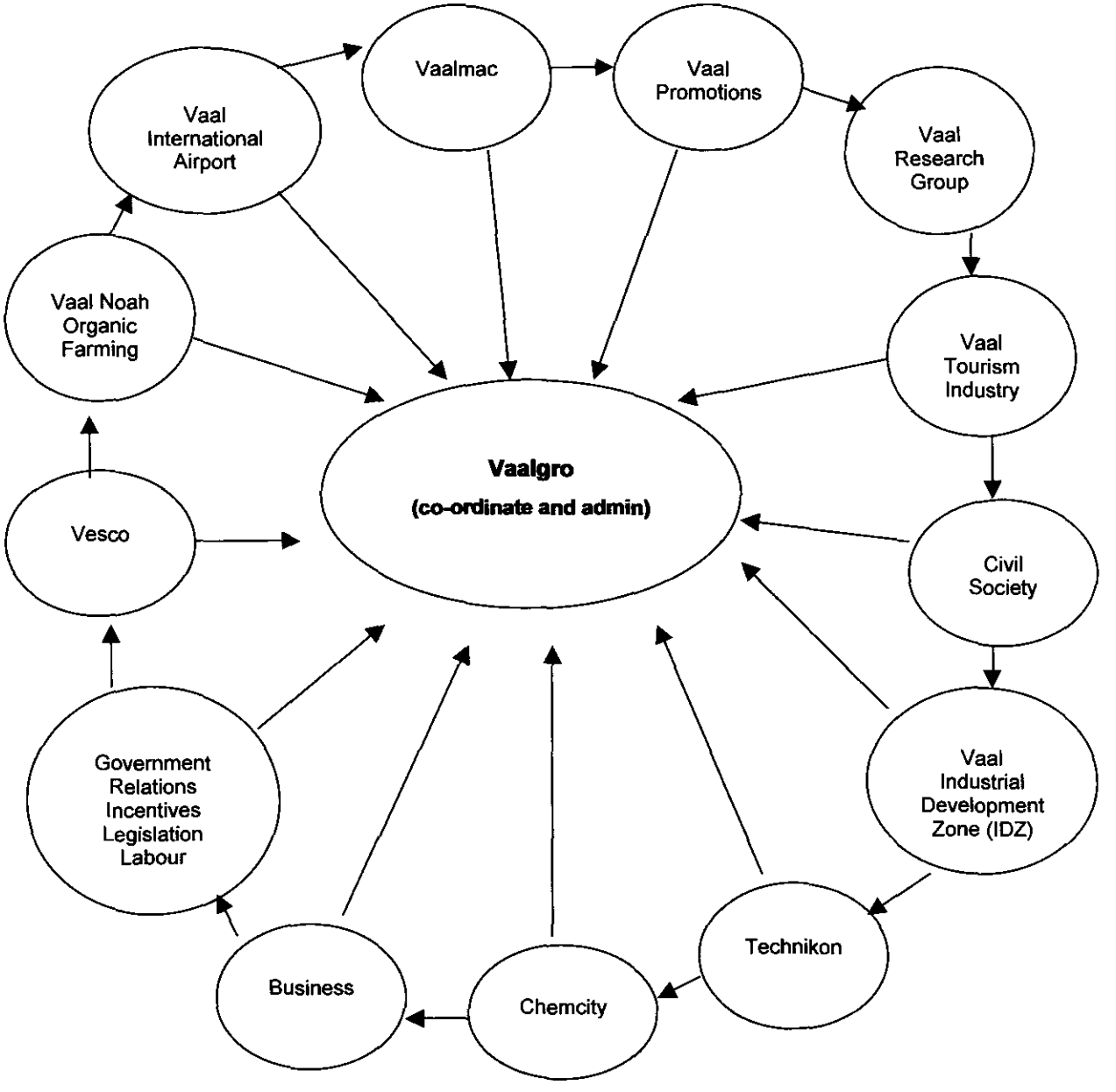
The functions of the VERB were planned so as to include the following (Slabbert & Dorfling, 2001:77). It was namely defined that it should –

- form one "mouthpiece or voice" for the regeneration of the Vaal Triangle's economy;
- serve as a clearing house for regional economic regeneration initiatives;
- co-ordinate regeneration initiatives;
- communicate initiatives to investors and governmental bodies;
- co-ordinate the establishment of new enterprises and seek for example, funding for projects; and
- establish step by step the involvement and commitment of all roleplayers in the regeneration process.

It was suggested that the VERB structure be co-ordinated and administered through the existing Vaalgro structure, as can be seen from Figure 5.1. VERB should be a public benefit organisation (PBO), with certain individuals offering economic expertise and all the executive mayors of the local authorities, as well as the seven managing directors of major local industries, being involved. Figure 5.1 shows the links to a number of institutions and other stakeholders in the region.

The Economic Summit (organised by the Sedibeng District Municipality) on 31 October 2003 about the regeneration of the Vaal economy, is another indication of local stakeholders' interest and seriousness regarding the revival of the local economy. Urban-Econ is currently busy with a viability investigation in this regard to eventually formulate an integrated economic plan for the local economy (Van den Berg, 2003:14).

Figure 5.1: Structure of VERB



Source: Slabbert & Dorfling, 2001:78

5.2.2 VAALGRO

Vaalgro is a section 21 company, proposed as a vehicle for the development and establishment of affirmative business enterprises. The objectives of the company include the upliftment of the local community and the support of government initiatives on equity, empowerment and job/wealth creation. Vaalgro is responsible for bringing

entrepreneurs in contact with opportunities and to train and finance such entrepreneurs. It supports SMMEs via its Support Bureau and is also involved in the coaching and mentoring of SMMEs (VRG, 2002:50).

5.2.3 VAAL ECONOMIC FORUM

The Lekoa Vaal Economic Forum in the late 1990s was an initiative of the Lekoa Vaal Metropolitan Council. One of the aims was to establish a vehicle for the development of businesses in the Vaal Triangle. The Forum was relatively active with some initiatives, especially in the period 1997/98. However, the initiatives failed because of a lack of interest and commitment from all the roleplayers (Slabbert & Dorfling, 2001:33).

5.2.4 ORGANISED BUSINESS

Organised business organisations in the EMA, such as the Vereeniging "Besigheidsforum" (VBF) and the Vanderbijlpark "Sakekamer" are also directly or indirectly involved in the economic upliftment and development of the EMA. The two business organisations were involved in Evaton during 2003 i.r.o. a road project costing R2.8 million. Goals of these organisations include the promotion of businesses in the region and the creation of an investor-friendly environment in the Vaal (Anon., 2003d:1).

5.2.5 INDUSTRIAL REGENERATION/DEVELOPMENT

According to Slabbert & Dorfling (2001:33) the Vaal Triangle was identified as one of the focus areas of the Gauteng Special Economic Zone Programme (GSEZP). The programme which forms part of Gauteng's Blue IQ Programme, involved a strategic intervention that was aligned with the Spatial Development Initiative (SDI) criterion for opening up the economic potential in areas with under-utilised industrial or infrastructural capacity. Strategic industrial assets that are important to the growth of the regional economy, had to be targeted. The intervention involved the design and implementation of industrial regeneration projects.

In 2002, the DTI commissioned an investigation into the industrial regeneration potential of the industrial sector of the Vaal Triangle. The report (Bloch & Dorfling, 2000) recommended the following.

- Stakeholders had to be shown the advantages of industrial regeneration in the region.
- The region should be marketed to potentially interested industrialists.
- A regional incentive package should be worked out for the region.
- The existing businesses have to be supported actively.
- New small businesses and manufacturing businesses should be stimulated.

The VRG (2002:55) states, that for the regeneration of the industrial sector in the region and a programme of regeneration to materialise, a local initiative is required. It is important to show stakeholders the advantages of regeneration and to convince government that the leadership in the region is a serious matter and claims delivery.

One of the measures offered by the DTI that is specifically aimed at encouraging the international competitiveness of the domestic manufacturing sector, is the Industrial Development Zone (IDZ) programme. IDZs are planned as purpose-built industrial estates linked to an international airport or port in which quality infrastructure and expedited customs procedures are coupled with unique duty-free operating environments suited to export-oriented production. It is expected, that the private sector will build and operate IDZs (Slabbert & Dorfling, 2001:36).

An IDZ is aimed at export-oriented manufacturing and processing, and incorporates features such as a duty-free status for imported raw materials and components, national and local government incentives, the latest information technology and a world-class infrastructure (Slabbert & Dorfling, 2001:36).

According to the VRG (2002:59), local stakeholders believe, that the main purpose of the establishment and development of an IDZ in the region, would be to regenerate the local economy by offering local and international firms the possibility to invest in the area. To qualify for an IDZ, a region first must be identified and designated by the national government as an IDZ. Stakeholders in the EMA hold the view that an IDZ should be established and are throughout investigating the viability of such a project.

5.2.6 MANUFACTURING ADVISORY CENTRES

The establishment of manufacturing advisory centres (MACs) is another initiative of the DTI. It has as goal the expansion of South Africa's small manufacturing sector and the improvement in the competitiveness and growth of existing small and medium-sized firms. The South Africa MAC model is unique and perhaps the most advanced in the world. The final model was tailored and refined to suit local conditions by using all available inputs. The MAC programme has some of the best-trained industrial advisors who rely on the most cutting-edged diagnostic technology in the country (Slabbert & Dorfling, 2001:34).

A total of three MACs were established in Gauteng, namely on the East Rand, the West Rand and the Vaal Triangle/EMA (office in Vanderbijlpark). A total of R1,7 billion was/is spent towards establishing these MACs. The establishment of the Gaumac office in the EMA, is currently the sole concrete initiative of the Gauteng provincial government in the regeneration of the Vaal, and therefore, the entire EMA economy. The Gauteng provincial government has been instrumental in the stetting up of the Gauteng Manufacturing Advisory Centre (GAUMAC) (the provincial body) and is working closely with NAMAC (National Manufacturing Advisory Centre) – the national body (VRG, 2002:55&56).

Edwards (2003:1) is of the opinion, that the only remedy for the economically depressed region of the Vaal, seems to be the establishment of further multi-million rand projects like Iscor, Sasol and Karbochem. Small companies in the region, according to Edwards (2003:2), have a life span of only two years. After two years, 80% of the companies come to an end. There currently are approximately 6 large, 100 medium and 400 small companies in the Vaal Triangle.

5.2.7 UPGRADING OF THE VEREENIGING AIRPORT TO INTERNATIONAL STATUS

The VRG (2002:56) states that various factors have contributed to the investigation into the potential development of an international airport in Vereeniging, like the concept of a niche airport to serve medium-heavy and heavy aircraft to and from Sub-Saharan Africa and also the lack of specific facilities at the Johannesburg International Airport.

Factors towards decisions in recent years i.r.o. developing and upgrading the Vereeniging Airport, include the following (VRG, 2002:57).

- Geographical position in Gauteng.
- Existing road and rail infrastructure at the airport.
- Availability of industrial land around the airport.
- Ease of radar control under the Johannesburg Terminal Movement Area.
- Support demonstrated by the local authorities in this effort.

5.2.8 NATIONAL ORGANIC AGRICULTURE AND HEALING (NOAH) PROGRAMME

The main purpose of the NOAH programme, is the production of organic and environmentally-friendly fresh produce. This produce is earmarked for both the national and international markets. It is envisaged, that the programme will employ advanced state of the art technologically and environmentally-friendly processes (Slabbert & Dorfling, 2001:37).

5.2.9 TOURISM, ENTERTAINMENT AND MARKETING

The development of tourist attractions in the EMA (riverfront, hotels and the casino business) has not yet managed to attract the large numbers of customers from outside the region. The VRG (2002:61) states that some factors hindering the development of the tourism and entertainment sectors are a lack of an integrated marketing strategy, littering of entrance routes and the pollution of the Vaal River.

The Vaal Tourism Agency is a registered NGO which was established in 1998 as a tourism promotion agent in the Vaal Triangle. The Agency has a success story in the involvement of projects such as the following (Anon., 2003a:7).

- Tourism family days and tourism awareness programmes.
- With the aid of the Sedibeng District Tourism Department, the Agency facilitated a partnership among all roleplayers in the tourism industry and organised workshops to aid this process.

- The Agency launched a campaign called "Knowing your area" and arranged school tours to make learners more knowledgeable about their region and its tourism attractions.

The Vaal Tourism Agency also worked alongside, interacted and formed partnerships with organisations/institutions such as the Sedibeng District Municipality, the Gauteng Tourism Authority (GTA), the Department of Environment and Tourism and VERB. It also has a co-operative partnership with the Vaal River Meander Association whose purpose is primarily to market the Vaal River in terms of its potential ability to attract tourists and to place the Vaal Triangle in the limelight (Anon., 2003a:7).

It has been suggested by many stakeholders, that the region should position itself as "Africa's Inland Waterfront" for especially overseas visitors. The attractions could include game viewing drives, safaris, bird sanctuaries, township tours (especially Sharpeville), various water-based activities, African curios, arts and crafts, theme parks, cultural villages and African fashion (VRG, 2002:61&62).

Significant emphasis is placed on the marketing of the region as a clean and safe business location in Gauteng with high-income housing, entertainment and tourism along the Vaal River, to increase attractions. The VRG, with all its reports and international contacts/network, is also actively involved in the marketing of the Vaal Triangle, and therefore, the EMA. The VRG issued a report (Slabbert & Pelupessy, 2000), in this regard in 2000, "Prospects for trade and investment in South Africa's largest industrial hub".

5.2.10 RESEARCH SUPPORT

As already pointed out in Chapter 1 (Section 1.5.3) the VRG is an inter-university research group within the region, to conduct and co-ordinate research in the Vaal Triangle for the benefit of the people, institutions, businesses, industry and local government. Prof T.J.C. Slabbert from the North-West University (Vaal Triangle Campus), at present is playing a leading role in this regard.

Research on different aspects of the Vaal Triangle/EMA economy, have regularly been undertaken by the VRG since 1987 (30 research reports were published between 1987 and 2003). The purpose of these reports envisaged keeping tract of the state of the

local economy and to convince local, provincial and national governments of the need for intervention (for example LED strategies), to reduce the very high unemployment and poverty rates in the region (see Chapter 4).

5.3 THE EMFULENI LOCAL MUNICIPALITY'S (ELM's) ROLE IN LED

5.3.1 DESCRIPTION OF THE ELM

As part of the Sedibeng municipality area, (see Provincial General Notice no. 1175 dated 2 March 2000), a new local municipality called the Emfuleni Local Municipality (GT421), was established in March 2000. The ELM is a category B municipality as determined by the Demarcation Board in terms of section 4 of the Municipal Structure Act (Gauteng, 2000:7).

The Western Vaal and Vereeniging/Kopanong (Eastern Vaal) Metropolitan Local Council (former names of the ELM), established by the Premier's Proclamation no. 3, dated 1 January 1995 as amended, were disestablished with the establishment of the ELM (Gauteng, 2000:11&12).

As mentioned in Chapter 1 (Section 1.5.2), the EMA basically includes Vanderbijlpark, its suburbs and townships, as well as Vereeniging, its suburbs and townships. The ELM is one of 231 so-called local municipalities or category B municipalities (of a total of 284) in South Africa, and consists of 85 councillors. The ELM, Midvaal Local Municipality (Meyerton-area) and Lesedi Local Municipality (Heidelberg-area) are part of the Sedibeng district municipal area.

5.3.2 THE ELM's MANDATE FOR LED

As already pointed out in Chapters 1 & 2, the national government demands from local governments such as the ELM, to play a developmental role in their respective localities. The ELM can and must play a central and leading role in economic development by virtue of their powers and functions. Palmer & ODA (2003a:33) state that the ELM should also form partnerships with other stakeholders in the region in order to address LED.

Virtually every city, town and rural area are faced with pressing development needs. It is becoming increasingly clear, that meeting these needs will require local government to play an active role in promoting LED. Consequently, it is essential that the ELM also develops a firm understanding of the importance of local economic development issues.

According to the executive major of the ELM, Mr J. Thabane, the greatest challenge of the ELM today, is to restructure the local economy so that no resident is unemployed or is employed under unacceptable conditions (ELM, 2002a). He also states that the ELM must seek measures to improve the EMA economy and to ensure that economic growth benefits all the EMA residents. He also emphasises the importance of all stakeholders working together to address poverty.

5.3.3 VISION AND MISSION OF THE ELM

Palmer & ODA (2003b:7) state that both the ELM Council and administration regard economic development as a primary challenge for the municipality. Discussions with a broad range of stakeholders confirmed this as a key issue for economic roleplayers in the region. The importance of LED is also reflected in the ELM's vision and mission as stated below (ELM, 2003b).

"To provide through governance an effective and efficient people-centred administration that will ensure quality and sustainable service delivery, thus creating a clean and safe environment that will be conducive to economic **growth and wealth** within the Emfuleni Local Municipality."

In striving to achieve its vision ensconced in its mission, the ELM will strive to –

- provide a benchmark for good governance;
- achieve financially viable and **developmental local government**;
- maximise efficient and effective utilisation of available resources;
- improve the quality of life of residents and customers;
- provide quality and accessible, affordable and sustainable services;
- develop a people-centred and friendly local government;
- provide a safe and healthy environment; and

- create an environment which will be conducive to **economic growth and wealth**.

5.3.4 CORE STRATEGIES AND OPERATIONAL PLANS OF THE ELM

One of the nine core strategies of the ELM, is to facilitate economic development to improve the quality of life of all the inhabitants of the area. The eight sub-strategies in this regard are the following (ELM, 2003b).

- Create one-stop shops in various places in the area within the jurisdiction of the ELM.
- Determine incentives to attract investors and developers.
- Promote a safe and secure climate for investment.
- Market the area rigorously.
- Find ways to enhance the steel industry, especially secondary manufacturing.
- Use information technology to market the ELM.
- Develop agricultural mini-farms in the rural areas.
- Aggressively market tourism in the area by focussing on the natural resources and historic places.

Operational plans to facilitate economic development in order to improve the quality of life of all the inhabitants of the area, include the following (ELM, 2003b).

- Develop a marketing strategy.
- Create a web site for the ELM.
- Draw up a comprehensive incentive scheme for developers.
- Curb pollution.
- Set up one-stop centres.

5.3.5 ELM's LED ORGANISATIONAL STRUCTURE AND ARRANGEMENTS

In terms of the municipality's administration and officials, there is a LED and Tourism Department within the Development Planning Cluster. A Manager for LED and Tourism

was also appointed, who collaborates very closely with Sedibeng's Executive Manager for LED and Planning.

In terms of the portfolios of the Emfuleni Council, a LED and Tourism Portfolio was approved on 10 April 2001. The Portfolio came up with an action plan to implement the LED, Tourism and Development Planning core strategic tasks, with the following as the key focus areas (ELM, 2002a:24).

- Facilitating economic development in order to improve the quality of life of all the inhabitants of the area.
- Focussing on overcoming fragmented government in the area.

The ELM (2002a:24) states that the development of the region as a tourism destination has been identified and led by the Sedibeng District Municipality, though there still is a need to upgrade some of the historic places, while retaining their architectural design. The tourism route still needs to be defined in detail. The ELM obtained representation on the GTA, which enables participation in the promotion of tourism in Gauteng.

Table 5.1 is a summary of the ELM's LED and Tourism Portfolio's focus area, economic development and job creation, with several relevant key tasks and implementation steps. Various core strategic tasks and implementation strategies of the Portfolio subsequently are indicated in Table 5.2.

Table 5.1: ELM's LED and Tourism Portfolio's focus area, economic development and job creation

FOCUS AREA	KEY TASKS	IMPLEMENTATION STEPS
Economic development and job creation	o Ensuring that economic development has wider benefits and creates jobs. o Locate new housing and transport closer to the economic centres. o Encourage local economic growth. o Stimulate economic activity in the Black areas. o Support community based and co-operative enterprises. o Restructure Councils in line with the National Framework Agreement. o Provide equitable pay and benefits for all workers. o Expand opportunities for skills development for employees.	o Review current tendering, procurement, banking and investment policies and procedures. o Implement projects by using a public works based approach. o Conduct detailed economic studies. o Identify issues that militate against economic growth in Black areas and develop a programme to remove such. o Host the municipal job creation summit after the provincial one.

Source: ELM, 2002a:24

Table 5.2: ELM's LED and Tourism Portfolio's core strategic task and implementing strategies

CORE STRATEGIC TASK	IMPLEMENTING STRATEGY
Promote a safe and secure climate for investment.	Investigate and support the municipal policing approach. Liaise and work in close co-operation with Sector Cops/SAPS. Closer consultation with the SAPS and other law enforcement organisations. Get more involved in crime prevention strategies of other spheres of government. Installation of close circuit video within the jurisdiction of the ELM and strict enforcement of by-laws.
Development of the profile of the area.	Initiation of economic and social needs studies to understand the area.
Market the area rigorously.	Develop marketing strategies.
Find ways to enhance the steel industry, especially secondary manufacturing.	Establish SMME base in the area and facilitate its link with major industries. Promote and get actively involved with major industries. List all informal steel businesses.
Use information technology to market the Council.	Development of website for Council.
Develop agricultural mini farms in the rural areas.	Identify potential land and beneficiaries and link with the District.
Aggressively market tourism to the area by focussing on the natural resources and historic places.	Identify tourist destinations for example monuments. Annual festival (water and jazz).
Ensure economic development that has wider benefits and creates jobs.	Review the current tendering procedure, banking and investment policies and procedures.
Stimulate economic activity in the former disadvantaged areas.	Identify issues that militate against economic development in the former disadvantaged areas through establishment of industrial and commercial nodes in the said area.
Restructuring of some of the service in line with national Framework Agreement.	Access impact of all functions and assets of Council on economic and social development of the area (PPP's, utilities). Support community-based co-operate enterprises.
Investigate possibility of business development along N1 and other freeways through the area.	By developing master plan for development along the N1 and other freeways through the area.
Report on twinning agreements with foreign cities.	Enter into negotiations and interact with other towns and cities.

Source: ELM, 2002a:25

5.3.6 LED STRATEGIES AND ECONOMIC DEVELOPMENT PLAN (EDP)

The information about ELM's LED strategies/plans, is based on the research and reports of the VRG (2002), Slabbert (2002), Slabbert & Dorfling (2001), Palmer & ODA (2003a&b), ELM (2002&2003) and IDP documents of the ELM. The conclusion drawn from all the documentation, is that there are several potential LED strategies for the EMA at the moment, but that there are some questions about the current practical implementation thereof. Mr Peter Skosana (Sedibeng Executive Mayor) is of the opinion, that there are definitely potential strategies in the region at the moment, but they first need to ensure everyone is " ... singing from the same hymnbook" (Farr, 2003:2).

Two main principles and elements follow and encapsulate the emerging LED strategy/plan for the ELM (Palmer & ODA, 2003b:7).

Getting the basics right.

- Committing resources to servicing the basic needs of people.
- Ensuring legal compliance and addressing all forms of corruption in the administration and Council.
- Restoring financial viability in the short-term: reducing unnecessary financial losses, reducing costs of service delivery and prioritising service areas that increase revenue.
- Redesigning internal systems to maximise efficiency and effectiveness.
- Informing the EMA community of its intentions and endeavour to obtain solid support in implementing the strategy.

Building the economy together.

- Building alliances with business and other spheres of government in order to create a supportive environment for investment and business operations.
- Cutting red tape by designing transparent and efficient approval processes with appropriate and user-friendly mechanisms, so as to facilitate business dealing with the ELM.

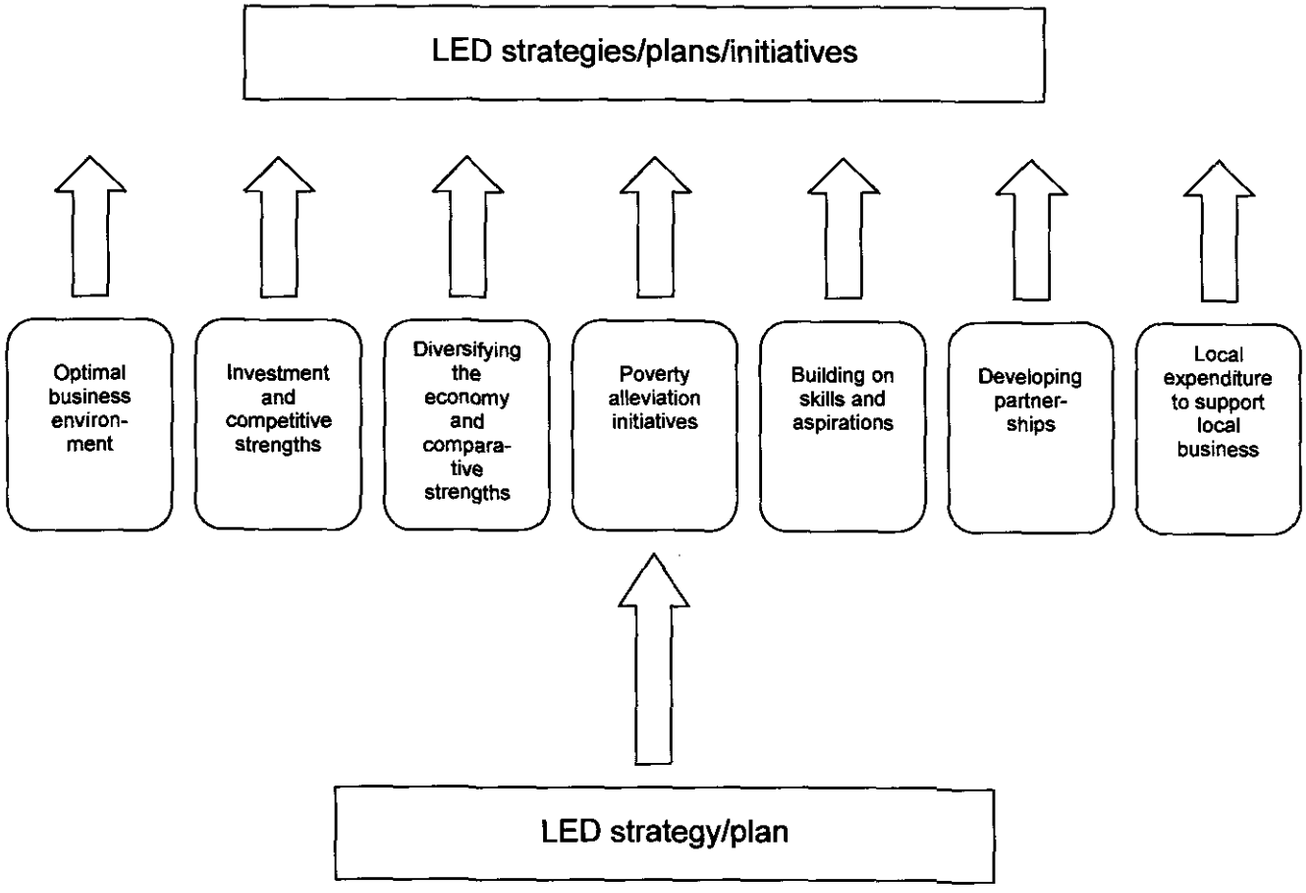
- Attracting new investments to the region by using existing competitive strengths and by diversifying the local economy.
- Communicating economic development initiatives and achievements to get business and community support for local economic development.

The implementation of an economic development strategy/plan in the EMA needs to be strongly focussed on job generation in order to reduce poverty and produce economic growth. The ELM (Palmer & ODA, 2003b:29) should aim to achieve this by means of the following.

- Improving the environment for existing businesses.
- Fostering new business development within the EMA.
- Attracting new businesses to the area in order to diversify the economy and to generate jobs.
- Bonding partners in initiatives specifically aimed at poverty alleviation.

The LED strategy/plan must provide a framework for the EMA's development agenda. The ultimate objective, is to bring sustainable and equitable economic development to the EMA. The ELM will achieve this with seven building blocks of fundamentals for its economic development strategy (Palmer & ODA, 2003a:2). Figure 5.3 is an illustration of these building blocks. It can be seen as the LED strategy/plan of the ELM at this particular moment in time. Each of these building blocks or LED strategies will be discussed in subsequent sections.

Figure 5.2: LED strategies/plans/initiatives



Source: Palmer & ODA, 2003b:29

5.3.6.1 Creating an optimal business environment

Providing an optimal business environment is one of the keys to economic development and sustainability. This will benefit existing businesses in the EMA, but it will also enhance the EMA's attractiveness to potential investors. Palmer & ODA (2003a:15-19) state that an optimal business environment includes, amongst other things, the following.

- Being attuned to business needs. The ELM needs to have an effective and ongoing relationship with its business stakeholders and also needs to have ongoing inputs at various business forums. The Municipal Manager of the ELM has taken the lead in this regard.

- Consult with business i.r.o. economic development, more generally the structures and forums within which this consultation can take place. This includes the VERB, GAUMAC and the Sedibeng District Municipality.
- Cost-effective and efficient provision of services to business clients. A number of initiatives have already been taken by the Council, or are being considered. Options for consideration include a business information sheet, business service kiosks in various locations, a one-stop shop specifically catering for business clients, and Council service points co-locating with major businesses in business centres or with other business-oriented government agencies like GAUMAC.
- Cutting red tape. The ELM needs to initiate a number of actions aimed at streamlining approvals, processes for businesses and possibly also reducing the number of approvals required under Council regulations. The Economic Development and Planning Cluster of the ELM needs to act urgently in this regard.
- Improving the physical amenities of local business centres and boosting local business confidence. Recent examples include an acclaimed street lighting programme that was initiated, a significant sponsorship that was sourced from within the local business community and a Vaal River carnival that was staged by the Council. These kinds of civic projects are important in terms of building confidence and community cohesion and the ELM now needs to move to a model of partnership for carrying out similar activities in the future.

5.3.6.2 Attracting investment based on the EMA's existing competitive strengths

The EMA's manufacturing base forms the core of its competitive advantage. The EMA has the potential to become a much more vital manufacturing node in the provincial and national economy. The EMA's specific manufacturing advantages are strongest in the field of iron and steel, as exemplified by the region's biggest employer Iscor. Downstream industry development is limited and there is large potential for the region to exploit this further in an effort to diversify its economy and to generate jobs. It also has competitive strengths in metals manufacturing, since they provide the potential nucleus of industry cluster development. New product lines will strengthen the area's

attractiveness to a host of downstream users of iron and steel products (Palmer & ODA, 2003a:19-23 and Palmer & ODA, 2003b:30).

One of the strongest competitive advantages in the EMA, is its well-developed infrastructure like electricity, roads and railway lines and cost-effective links to especially the greater Johannesburg area, as well as water supply from the Vaal River which is distributed and managed by Rand Water. The EMA's workforce has skills in manufacturing, with particular strengths in iron and steel manufacturing and engineering-related activities. The area also hosts a number of higher education institutions like the Potchefstroom/North-West University (Vaal Triangle Campus) and the Vaal Triangle Technikon – which have the ability to provide upskilling associated with new investment. The existing capacity of educational institutions could also be deployed more assertively in attracting particular kinds of businesses to the region (Palmer & ODA, 2003a:23-25).

Slabbert & Dorfling (2001:46-51) refer to the following "selling points" of the Vaal Triangle and the EMA for investors. A good infrastructure, reasonable development costs, lower crime rates than those experienced in other areas of Gauteng, attempts to deal with pollution, a relatively highly skilled workforce, a good quality of life and the development of local incentives. Complementary to the incentives from the national and provincial governments (especially the DTI), the ELM must also offer sufficient incentives in order to attract new investment or to maintain existing investment. Therefore it is recognised that new incentives need to be investigated, particularly in the light of factors hampering investment that can be influenced at the local level.

Slabbert & Dorfling (2001:42-45) state that industrial and business leaders in the region indicated that the main factors hampering new investment in the region, are the following.

- The decline and downscaling of major industries.
- Locational cost disadvantage.
- Lack of business support.
- Poor quality of life in terms of pollution, poverty, crime and unemployment.

- Skill shortages like the lack of entrepreneurial training.
- Lack of a strong regional marketing body.
- Absence of a strong regional decision-making body.
- Poor maintenance of infrastructure and service provision.

The challenge for local stakeholders like the ELM is to consider ways of reducing the impact of those factors that can be influenced at the local level. It is possible to formulate strategies and actions leading to investment attraction, as well as the expansion of existing economic activities.

5.3.6.3 Diversifying the economy by building on the EMA's identified comparative advantages

The EMA's main comparative advantage is derived from its location in southern Gauteng, bordering on the Vaal River. Located about one hour's drive south of Greater Johannesburg, the EMA benefits from both its distance and proximity to the metropole. The ELM has also identified its comparative advantage in terms of the availability of large tracts of land which are close to towns and townships and are suitable for industrial activity. The cost of land is also considerably cheaper than in Pretoria or Johannesburg (Palmer & ODA, 2003a:25&26).

The EMA's location on the Vaal River is a particularly important comparative advantage for recreational/tourism services and for water-related industries. The tourism/recreational industry remains under-developed when compared to the rest of Gauteng. The Inland Waterfront has already been initiated by the ELM as a major project which can play a role in kickstarting a new drive in this industry. The EMA also gains a comparative advantage from the competitive strengths of its neighbouring towns and municipalities like Sasolburg, the home to Sasol, South Africa's cutting-edge chemicals giant (Palmer & ODA, 2003a:26-28 and Palmer & ODA, 2003b:30-32).

5.3.6.4 Reducing poverty through special interventions

The VRG (2002:144&145) states that 42.8% of all households and 45.3% of the total population in the EMA were poor in 2002. The EMA is experiencing unprecedented levels of poverty, due to layoffs at Iscor and other companies. The EMA has also borne

the brunt of the failure of two pyramid schemes. Any initiative aimed at poverty alleviation, needs to be targeted directly at the townships where the levels of poverty and long-term deprivation are the highest. Some ways of achieving this amongst others, include, the following (Palmer & ODA, 2003b:32).

- Putting resources into business development initiatives, which are most suited to townships.
- Developing other business models (such as co-operatives) which may be best suited for micro and small businesses.
- Finding suitable partners (such as NGOs) to manage projects such as urban agriculture.
- Taking into account the aspirations and existing skills of the poor in deriving specific initiatives.

Extra funding in the ELM budget for 2003/04, also underlines the commitment to poverty alleviation and NGOs, such as Interfund (which specialises in poverty alleviation), should also be sought out to advise the ELM. Their experience in direct management of such projects, is likely to be invaluable to ELM, which does not have the necessary experience, or indeed resources, to devote to this.

5.3.6.5 Building on the skills and aspirations of the EMA's people

The EMA has considerable skills and experience of working in a large manufacturing business and also in engineering and related applications. Other skills held by township residents, are more appropriately targeted through small business development initiatives and some of the poverty alleviation measures. Many of these poverty alleviation projects are explicitly designed to enhance skills and provide a business context for deploying such skills.

Palmer & ODA (2003a:31) state that where projects are instituted to match skills, communication becomes a key to buy-in by stakeholders. The best example of such an initiative, is urban agriculture. The challenge of ELM lies in communicating the benefits of such projects and managing their effective delivery to communities.

5.3.6.6 Developing partnerships in order to capacitate the municipality

Economic development in the EMA cannot happen in isolation and the ELM, therefore recognises the critical need for concerted efforts in supporting economic development. The ELM's LED strategies/plans build on the existing IDP and places particular emphasis on the need for partnerships with other governments and local businesses, to rebuild the local economy in a sustainable and equitable way. Partnerships also provide an excellent way of developing ELM's internal capacity. Partnerships engender skills transfers into the municipality and assist them where there is a lack of expertise within the municipality.

Partnerships with other governments or other spheres of government, include closer links between the ELM and the Sedibeng District Municipality. Sedibeng has its own economic development agenda (for example tourism) and the LED Cluster and Department. It is imperative that the ELM (Council and administration/officials) aligns with this. Palmer & ODA (2003a:34) state that there are numerous ways in which the economic development outcome of the ELM align with those of Gauteng. However, there is currently very little contact between these two spheres of government – a situation which needs to be addressed urgently. Particular sections of the Gauteng provincial government which offer the greatest potential for partnerships, include the Gauteng Economic Development Agency (GEDA), GAUMAC and the Gauteng Tourism Authority (GTA).

It is also vital for the ELM to look into the investment and industry initiatives of the national government and more specifically the DTI. Building strategic alliances with local businesses has also been recognised as being vital in delivering improved economic development outcomes. Palmer & ODA (2003a:37&38) refer to the fruitful partnerships with Iscor, Vaalgro, business organisations such as local chambers of commerce, the Vaal Show, local tourism operators, Rand Water, NGOs and other local civic organisations.

5.3.6.7 Using local expenditure to support local business

According to Palmer & ODA (2003b:34&35), the ELM has no formal procurement policy targeting expenditure toward local businesses. This is one of the easiest ways to

ensure that at least some of the expenditure generated by the ELM itself, has direct and flow-on economic benefits. One specific area where the ELM's purchasing power is readily deployed, is in housing developments. The new policy in public housing development aims at self-help situations, which involve local employment. Expenditure will be required by the ELM to fulfill its commitments to housing delivery. This expenditure could be more carefully targeted towards local business. For example, tenders for contractors or sub-contractors could preference those sourcing a certain percentage of goods and/or services within the region.

More generally, the ELM can also take the lead in supporting local businesses. It is fairly obvious that businesses in turn, would support any broader "buy local" campaign. Even marketing for such a campaign, is likely to be supported financially by local businesses.

5.3.7 VALUE/FUNCTIONS OF A LED STRATEGY/PLAN FOR THE ELM

A LED strategy/plan assists the ELM by doing the following (ELM, 2003a:138).

- Providing an analytical basis for ELM's interventions.
- Highlighting the key initiatives required to deliver medium to longer term economic development outcomes.
- Identifying enablers for the ELM to implement a LED strategy/plan.
- Providing a national and provincial context for municipal initiatives within the EMA.

The LED strategies/plans as mentioned in this chapter, provide a basis for specific interventions and has been structured within a five-year time horizon. In its current form, the LED strategy/plan mentioned, is a working document, subject to change and fine-tuning, as ELM begins to implement initiatives.

5.3.8 MICRO-LED STRATEGIES AND KEY POLICIES FOR IMPLEMENTATION PURPOSES

The ELM (2003a:138) states that some of the key micro-strategies needed to effectively implement the LED strategy/plan (more macro-level), include the following.

- Business support.

- Micro-economic reform.
- Civic projects.
- Investment attraction.
- Tourism development.
- Planning and land use management.
- Housing development.
- Properties management.
- Poverty alleviation.
- Procurement.

The list is not exhaustive, but provides a starting point for the ELM Council and management to focus on. Key policies required to implement the LED strategy/plan include, amongst others a land policy, incentives policy, environment policy and procurement policy (ELM, 2003a:138&139).

5.4 FINANCING AND RESOURCES OF LED

Local governments depend considerably on transfers from the national government to finance its LED strategies. Unconditional equitable share transfers and conditional infrastructure transfers from especially the DPLG, can be highlighted in this regard. The municipal budget should also be used as a tool to execute LED strategies of the local government.

5.4.1 GOVERNMENT FUNDING OF LED INITIATIVES

5.4.1.1 Unconditional equitable share transfers

The purpose of the equitable share transfers/grants from the national government (National Treasury and the DPLG) to local government, is to enable the local sphere of government to provide basic services such as water, sanitation, electricity and refuse removal. The formula favours poorer municipalities and targets households with an expenditure of less than R1 100 per month (in 2003). This was already explained in Chapter 3 (Section 3.3.2.1).

Table 5.3 gives an indication of the equitable share allocations to the ELM for the period 2003/04 – 2005/06. It increased from approximately R15 million in 1998/99 to R51 million in 2003/04 and is estimated to increase to R58 million in 2005/06. This represents a 286.7% increase in nominal terms during a period of 7 years.

5.4.1.2 Conditional infrastructure transfers

As mentioned in Chapter 3 (Section 3.3.2.2), infrastructure grants from the national government to local authorities, are allocated to expand basic infrastructure services to poor households in a specific locality. The aim is also to promote job creation through labour-incentive delivery mechanisms and infrastructure rehabilitation. Table 5.3 shows that infrastructure grants to the ELM will increase from approximately R19 million in 2003/04 to an estimated R26 million in 2005/06. This represents a 37% increase in nominal terms during this specific period. The largest portion of infrastructure allocation (95%), is the CMIP which flows through the DPLG.

5.4.1.3 Recurrent transfers

Firstly, the Local Government Financial Management Grant supports financial management reform at municipalities and is in line with the government's capacity building strategy (see Chapter 3, Section 3.3.2.3). Only R2 million was allocated to the ELM in 2003/04 and it is estimated to decrease to R1 million in both 2004/05 and 2005/06.

Table 5.3 shows an estimate of all the allocations from the national government to the ELM for the period (municipal financial year) 2003/04 to 2005/06. These conditional and unconditional grants eventually form part of the ELM's annual budget.

Table 5.3: Estimated government funding to the ELM for the period 2003/04 – 2005/06

	2003/04 (R-million)	%	2004/05 (R-million)	%	2005/06 (R-million)	%
1. Unconditional equitable share	50.9	70.7	54.7	69.5	57.9	68.0
2. Conditional infrastructure grants	19.1	26.5	23.0	29.2	26.3	30.9
3. Recurrent	2.0	2.8	1.0	1.3	1.0	1.1
4. Total	72.0	100.0	78.7	100.0	85.2	100

Source: SA, 2003:32, 52&72

In the municipal financial year 2003/04 the total grants from the national government to the ELM, are R72 million. The contribution of the equitable share allocation is almost 71%. It is interesting that this percentual share will decrease to 68% in 2005/06. The R72 million grants are not even 10% of the total income of the ELM at the moment (see Section 5.4.2).

Secondly, the Restructuring Grant from the National Treasury is to assist municipalities with large budgets with their restructuring process. Funding is targeted towards the larger towns/cities in order to enhance macro economic growth, revenue management, LED, effective and efficient service delivery and long-term sustainability (see also Chapter 3, Section 3.3.2.3).

The ELM's restructuring grant application in May 2003 outlined the case of the ELM to the National Treasury for receiving between R76 and R231 million over a three-year period, in order to resolve its viability crisis and to become a sustainable municipality (ELM, 2003c:4). It is argued in the municipality's application that if the ELM continues on its current path without intervention, it will end up with a R1.4 billion cumulative deficit within four years.

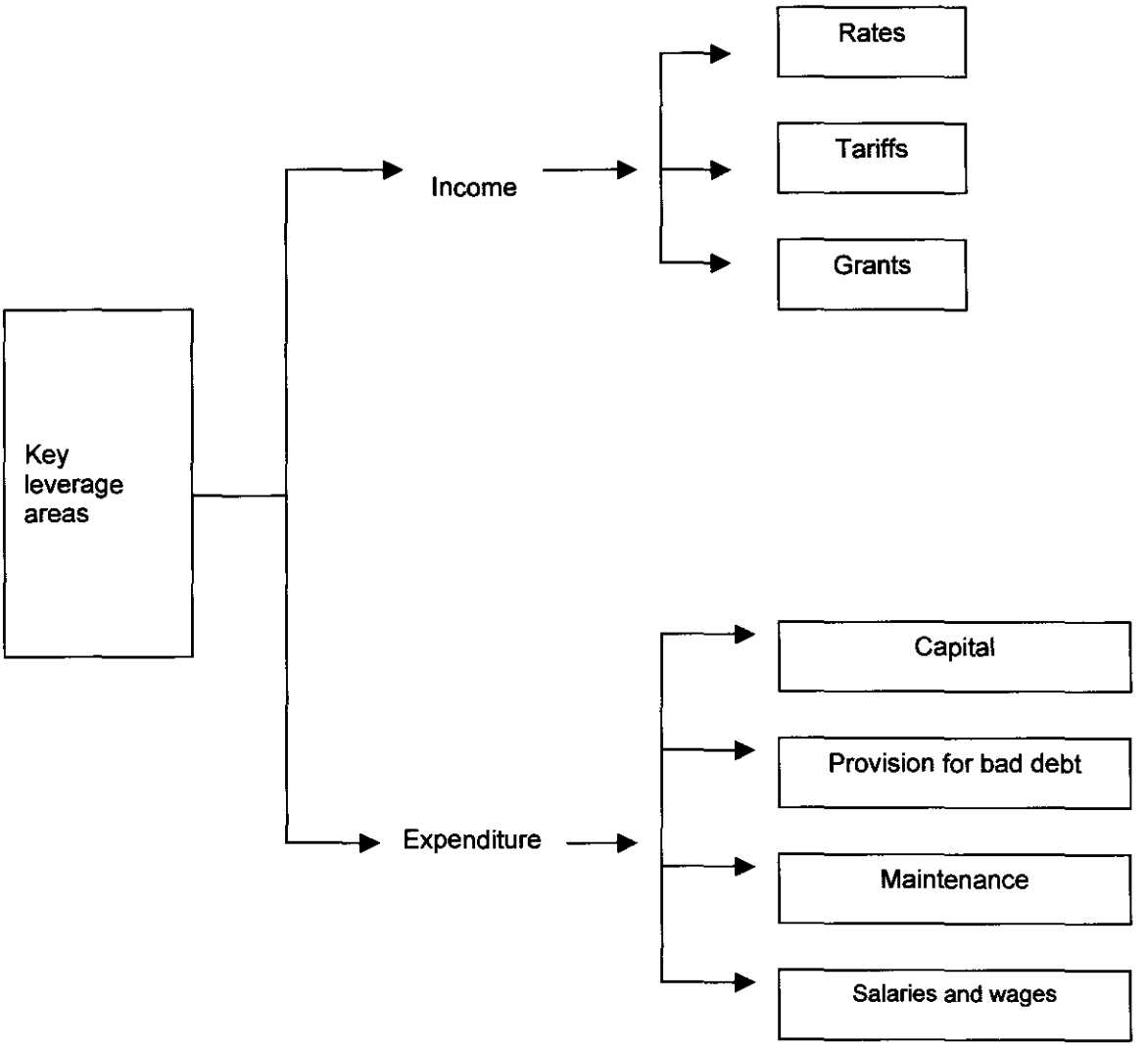
5.4.2 ELM's BUDGET AND LED

ELM's budget is a powerful tool and instrument to execute LED in the EMA. From the income side of the municipal budget, there are conditional and unconditional grants from the national government which can to a greater degree be directed to LED. From

an expenditure point of view, the ELM can bring the expenditure more in line with its LED strategies/plans.

The ELM has both a medium-term expenditure framework (MTEF) approach and an analysis framework in order to define what they need to achieve in relation to financial viability. Figure 5.3 outlines the key leverage areas for achieving financial viability.

Figure 5.3: ELM's key leverage areas for financial viability



Source: ELM, 2003c:10

The ELM's total budgeted expenditure for the municipal financial year 2003/04, is estimated at R817 million and the total operating income at R812 million. The salaries and wages component of R247 million, forms 30% of the total expenditure and the government grants and subsidies component of R71 million, forms almost 9% of the

inform the determination of future intergovernment transfers, especially in relation to the use of RSC levies (ELM, 2003c:11). As already pointed out in Section 5.4.2, the government's grants and subsidies to the ELM, forms 9% of the 2003/04 budget income. This is an indication of the increasing importance of this component of the municipality's income.

The actual average payment level during the 15-month period preceding November 2002, is below the National Treasury target of 97%. The average payment levels are 82.7% (including interest on arrears) and 92.8% (excluding interest on arrears). Payment levels fluctuate during the year, therefore, long-term trends are used as a more realistic indicator. The key impact of payment levels on the development of the municipality's strategy model is on the expenditure side, where Generally Accepted Municipal Accounting Practice (GAMAP) makes provision for bad debts (ELM, 2003c:11).

5.4.2.2 ELM's budget expenditure

Expenditure displays a high level of structural inertia, meaning that the Council does not have much short- to medium-term discretion within the operating budget to change expenditure patterns. Categories of expenditure, such as salaries and interest and redemption on capital loans, are notoriously hard to change, as major changes involve drastic actions such as retrenchments and loan default. Reducing operating expenditure in practice is also very difficult, once infrastructure has been provided. Most of the ELM's current operational problems relate to past asset stripping tendencies such as electricity failures, water losses and vehicle availability. They all stem from a significant underinvestment in maintenance (ELM, 2003c:11&12).

The 2002/2003 capital budget was R39 million, or 3.6% of the operating budget. This is far below a municipal norm of 8% - 12%, and is due to cash-flow constraints. This situation is likely to continue until payment levels increase. Some 15% of the ELM's capital is internally funded. This is only R6 million (on an annual operating budget of approximately R1 billion), of which only 11% was actually spent in 2000/01. It is not realistic to consider further cuts in capital (ELM, 2003c:12).

The GAMAP requirement to provide for bad debt as an expenditure item, has a major impact on preparing a strategy model. The bad debt provision has a direct relationship with payment levels. Due to the extremely high cumulative debt burden that the ELM carries, this element of the planning takes on a pivotal role. Outstanding consumer and other debtors increased with 14.9% between June 2001 and June 2002 to R1 083.3 million. After writing off some of these debts in late 2002, the ELM is still assuming that they will have to provide an estimated R108 – R219 million towards bad debts in 2003/04 at current payment levels (ELM, 2003c:13).

The ELM came close to losing its electricity reticulation licence through the lack of preventative maintenance expenditure and faces significant water and electricity losses. Water losses are estimated at 26% of purchased bulk, and are significantly bigger than an acceptable municipal norm of 15%. The quantities of electricity losses are unknown, but are estimated to be in the order of 13% of purchased bulk, whereas the municipal norm is at about 7% with lows in the region of 4%. An increase in maintenance expenditure levels from below 5% to the norm of around 10%, is required to secure service delivery integrity. This growth will require provision of an additional R50 million on the operating budget for 2003/04 (ELM, 2003c:13).

The ELM does not have much discretion in the increase of its annual wage bill, as this is centrally negotiated on its behalf by SALGA. The current wage bill is around 27% of operating expenditure, which is in the lower end in relation to other municipalities providing water and electricity services. The composition of the municipality's expenditure, is shown in Figure 5.5. The cost of bulk electricity and water, make up 45% of the total expenditure (see Figure 5.5).

CHAPTER 6: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 SUMMARY AND CONCLUSIONS

The main objective of this study, was to investigate LED in a South African context, with specific reference to the EMA in Gauteng. More and more localities in South Africa and especially municipalities, are becoming actively involved in the planning and implementation of LED in their respective areas. Given the socio-economic problems and challenges of the EMA, the study investigated and evaluated LED in an EMA context. The role of the ELM was highlighted in this regard.

From all the definitions of LED, it can be concluded, that LED is essentially an ongoing process, based on local initiatives and driven by local stakeholders to stimulate economic activity and to create jobs in a specific locality. Normally the local government is playing a leading and co-ordinating role with LED, where they also enter into partnership arrangements with other stakeholders like the private sector. Local government's developmental mandate from the South Africa Constitution and Whitepaper on Local Government, encourages municipalities to seek to address poverty, unemployment and redistribution in their local areas.

South African experience shows that roleplayers in the local economy and specifically municipalities, have developed a wide range of strategies to promote the development of the local economy. Common strategies in this regard include industrial recruitment and place marketing, SMME promotion and support, community economic development, export promotion and international trade and also business retention and expansion. Creating an environment to stimulate business sector performance and private sector involvement in a LED strategy, is critical.

Planning for and implementation of LED should be seen as a flexible process, continuously influenced by local conditions. Planning for LED is an important part of municipal planning. Planning for LED is part of developing an IDP for a local authority. Municipal development objectives may include things such as addressing unemployment in the local area, increasing 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. These strategies could consist of LED programmes and projects.

Institutional options for the implementation of LED in South Africa, include municipal LED units, a CDT, section 21 companies and partnerships with other stakeholders. Normally the LED unit at municipalities is within a planning and development department or a LED Co-ordinator is appointed who reports to the Municipal Manager or to the executive structure of the Municipal Council. There are also many examples in South Africa of partnerships between municipalities and business or community organisations to help secure a shared community vision as a basis for LED.

There is not only one special national fund in South Africa to promote LED. LED is the responsibility of all government departments and agencies, and all roleplayers throughout society. The most important resources available to meet LED objectives are existing government programmes and intergovernmental grants, funding from institutions such as the DBSA and the IDC, the private sector, community organisations and NGO funding, as well as funding from local authorities' budgets. The DPLG's CMIP, MIIU and LEDF are designed to promote LED in terms of infrastructure and SMME development, private sector investment in municipal services and projects that impact on job creation and poverty alleviation. Equitable share transfers from the national government to local governments endeavours to empower municipalities to provide basic services to poor people.

A local authority's budget and fiscal transfers from the national government/budget are important tools for stimulating LED in a specific locality. Substantial resources are being made available to the local government sphere (284 municipalities) in the national budget, so as to provide for poverty relief, extend infrastructure delivery and further strengthen the local government system through skills development and capacity building. There has been a steady but significant real growth in national allocations since 1998/99, doubling from R4.4 billion to R8.8 billion in 2002/03 and to an estimated R14.6 billion in 2005/06.

Three categories of government funding to local governments can be distinguished, namely unconditional equitable share and related transfers, conditional infrastructure

transfers (CMIP and LEDF), and recurrent transfers for capacity building and restructuring. The unconditional transfers grew in significance, from 56% of the transfers to local government in 2002/03, to an estimated 59% in 2005/06. While transfers from national governments comprise 17% on average of total local government revenue, this percentage is much higher for the smaller and predominantly rural municipalities, which typically receive 60% of their income in transfers.

Municipal capital and operating budgets are estimated at R74.5 billion in 2002/03, with capital budgets 17.6% and operating budgets constituting 82.4% of the total. The R46.7 billion total for the six metropolitan municipal budgets, comprises 62.7% of the total local government budgets for 2002/03. Salaries take up the largest share of municipal expenditure, totalling R19.8 billion in 2002/03, or 32% of operating and 27% of total expenditure.

Municipal revenue for capital expenditure is derived from national allocations/transfers in the region of 39% of the budgeted local government capital funding requirement of R13.1 billion. The largest share of operating revenue is derived from user charges, mainly from electricity and water, totalling R28 billion or 45% in 2002/03.

The total outstanding borrowing by municipalities, amounted to R20.2 billion at the end of 2002. Over R14 billion or 70% of the total municipal borrowing is vested in 39 municipalities. Category A municipalities account for 93.4% of the total borrowing. Recent reports suggest, that municipalities have accumulated R24.3 billion in outstanding debtor balances or unpaid consumer bills. More than 50% is owed to municipalities in Gauteng. The key budgetary challenges on local government level relate to aspects such as revenue collection, leakage in service delivery, the need for improvement in financial management and quality of reporting.

The EMA is currently experiencing an abnormally high unemployment and poverty rate in comparison with the provincial and national figures. Unemployment has a strong and enduring relationship with poverty in the EMA. A substantial degree of the poverty is of recent origin. The result of retrenchments at the bigger industrial establishments, together with the collapse of two large pyramid schemes, have influenced the local community negatively. The role of the ELM in a LED strategy for the EMA is, therefore, highlighted in this regard.

The EMA's contribution to Gauteng's GGP was approximately 6% in 2000. In terms of sectoral contributions agriculture's percentage share of the EMA to Gauteng's total agriculture is 15.5% and that of the manufacturing sector, 12.7%. In terms of the economic structure of the EMA, the manufacturing sector's share is declining, but is still more than 40% of all economic activities of the region. Metal, metal products and machinery represent 81% of industrial activities of the EMA. This highlights the strong dependence of the EMA on these activities.

The structural weaknesses and problems of the EMA economy highlight the importance and urgency of LED in the EMA. There are already initiatives in the EMA that are directly or indirectly related to LED. LED roleplayers and initiatives that can be mentioned in this regard, include VERB as a voice and co-ordinator for the regeneration of the Vaal economy, Vaalgro as a vehicle for the development and establishment of SMMEs, the establishment of a GAUMAC office in Vanderbijlpark as a concrete initiative of the Gauteng provincial government in the regeneration of the Vaal (and, therefore, the EMA economy), tourism, entertainment and marketing initiatives, such as the work of the Vaal Tourism Authority and also the research support from the VRG to the public and private sector of the region.

The ELM knows and understands that they have to play a leading and central role in LED in the EMA. The importance of LED is also reflected in the ELM's vision, mission, core strategies and operational plans. Moreover, LED forms an important part of the ELM's IDP. LED is part of the municipality's organisational structure and arrangements. A LED and Tourism Department was created within the Development Planning Cluster, with a Manager of LED and Tourism. In terms of the Portfolio's of the ELM's Council, a LED and Tourism Portfolio was approved in 2001. Key focus areas include economic development and job creation in the EMA.

Based on the investigation and research into the LED strategies of the ELM, there are several potential LED strategies for the EMA at the moment. However, there currently are some questions about the practical implementation thereof. The ELM officials and councillors are involved in several planning and "brainstorming" initiatives regarding a LED strategy or economic development plan for the EMA. They are, however, not at the implementation stage yet.

The LED strategy/plan must provide a framework for the EMA's development agenda. The ultimate objective is to bring sustainable and equitable economic development to the EMA. The ELM will achieve this by using the seven building blocks or fundamentals for its economic development strategy (see next paragraphs). It can be seen as the LED strategy/plan of the ELM for the EMA at the moment.

The first LED strategy is to create an optimal business environment in the EMA, by means of consultation and partnerships with the business sector. This includes the efficient provision of services to business clients like one-stop business centres and cutting red tape for the private sector.

The second LED strategy is to attract investment based on the EMA's existing competitive strengths. The EMA's specific manufacturing advantages are strongest in iron and steel, as exemplified by the region's biggest employer, Iscor. Downstream industry development is limited and there is a large potential for the region to exploit this further in an effort to diversify its economy and to generate jobs. The EMA must build on the "selling points" of the region for potential investors and address the factors that hamper new investment to/in the region.

The third LED strategy is to diversify the economy by building on the EMA's identified comparative advantages. The EMA's main comparative advantage is derived from its location in southern Gauteng bordering on the Vaal River. The ELM has also identified its comparative advantage in terms of the availability and cost of large tracts of land which are close to the towns and townships and are suitable for industrial activity. The EMA's location on the Vaal River is a particularly important advantage for recreation/tourism services and water-related industries.

The fourth LED strategy is reducing poverty through special interventions. The EMA is experiencing unprecedented levels of poverty and any initiative aimed at poverty alleviation, needs to be targeted directly at the townships, where the levels of poverty and long-term deprivation are the highest.

The fifth LED strategy is building on the skills and aspirations of the EMA's people. The EMA has considerable skills and experience of working in a large manufacturing business and also in engineering and related applications. Other skills held by township

residents, are more targeted through small business development projects and some of the poverty alleviation measures. Many of these poverty alleviation projects are designed to enhance skills and to provide a business context for deploying such skills.

The sixth LED strategy is developing partnerships in order to capacitate the municipality. The ELM recognises, with LED initiatives, the critical need to form and build partnerships and strategic alliances with the private sector and other government institutions. Examples include the Sedibeng District Municipality (especially the LED Cluster/Department), GEDA, GAUMAC, DTI, VERB, Vaalgro and NGOs.

The seventh LED strategy is to use local expenditure to support local business. The ELM has no formal procurement policy targeting expenditure toward local businesses. This is one of the easiest ways to ensure that at least some of the expenditure generated by the ELM itself has direct and flow-on economic benefits. More generally, the ELM can also take the lead in supporting local businesses. Moreover, businesses, in turn, would support any broader "buy local" campaign.

Government funding to the ELM for LED purposes, include unconditional, conditional and recurrent transfers from the national government. The unconditional equitable share transfers to the ELM for basic services to the poor, increased from R15 million in 1998/99 to R51 million in 2003/04 and is estimated to increase to R58 million in 2005/06. This represents a significant increase of 286.7% during a period of 7 years (in nominal terms). It also represents almost 71% of the total transfers to the ELM from the national government.

The conditional infrastructure transfers from the national government to the ELM for basic infrastructure services to poor households in the EMA, is R19 million in 2003/04. This represents almost 27% of the total national transfers to the ELM. The largest portion of the infrastructure allocation (95%), is the CMIP which is channelled through the DPLG.

Only R2 million was allocated to the ELM in 2003/04 in terms of recurrent transfers, which supports financial management reform at municipalities and capacity building. Restructuring grants are part of recurrent transfers from the national government to municipalities. This grant from the National Treasury is to assist municipalities with

large budgets with their restructuring process. Funding is to enhance LED, economic growth, and long-term sustainability. The ELM's restructuring grant application in May 2003 outlined the case of the ELM for receiving between R76 and R231 million over a three-year period, in order to resolve its viability crisis and to become a sustainable municipality. If the ELM continues on its current path without intervention, it will end up with a R1.4 billion cumulative deficit within four years.

The ELM's budget is a powerful tool and instrument to execute LED in the EMA. On the income side of the municipality's budgets, there are grants from the national government which can to a greater extent be directed to LED. From an expenditure point of view, the ELM can bring expenditure more in line with its LED strategies/plans.

The ELM's total expenditure for the municipal financial year 2003/04, is estimated at R817 million and the total operating income at R812 million. The salary and wages component of R247 million forms 30% of the total expenditure and the national government's grants and subsidies component of R71 million, form almost 9% of the total operating income. Given the current format of the ELM's budget, it is very difficult if not impossible, to determine how much money is allocated directly in favour of LED. However, many of the expenditure components are directly or indirectly related to LED initiatives or strategies of the ELM in the EMA.

6.2 RECOMMENDATIONS

Firstly, it is time for the ELM to take the lead in the EMA so as to formalise and implement its LED strategies/plans in co-operation and partnership with other stakeholders in the region. It is necessary to prioritise LED strategies and projects and to have the capacity at the ELM's LED and Tourism Department (administration and officials) and the LED and Tourism Portfolio (councillors) to implement these strategies successfully. The ELM has to participate and play a constructive role in forums such as VERB, for example, to demonstrate to roleplayers such as the private sector its urgency and commitment with LED in the EMA.

Secondly, the ELM, in partnership with other stakeholders, must follow a logical, scientific and step-by-step-approach with the planning and implementation of LED strategies in the EMA. A common vision for the EMA must be developed. Development

objectives (including LED objectives like job creation, poverty alleviation and economic growth) must then be identified. Thereafter, a few LED strategies (like SMME promotion) must be formulated in order to realise the development objectives. Some of these strategies will take the form of LED initiatives. A number of concrete projects (like a Business Advice Centre) can then be developed, to implement each LED strategy. Each project must have its own specific objectives and aims. The success of the project should be measured against the extent to which it has realised those objectives and aims.

Thirdly, given the current socio-economic situation of the EMA, LED strategies must be aimed at the creation of jobs, promotion of investment and economic growth and alleviation of poverty. One of the most important LED strategies in the EMA, should be business retention, expansion and attraction. Other LED strategies that could be of importance, include the economic regeneration of the region. VERB has a critical role to play with downstream industry and the regeneration of industry in the EMA. The efficiency of the municipality in a particular location, often influences decisions about where to locate a business. The ELM should have concessions, including substantial tax incentives, to potential investors in place. One of the best ways that the ELM can assist the business sector (including SMMEs), is to establish a one-stop business advice centre in the region.

Fourthly, related to a LED strategy of place marketing and industrial recruitment, a well-planned and formal marketing initiative is required for the EMA in order to successfully market the EMA. A proper brochure of the EMA, an own web site, as well as a professional and well-equipped information office, could be helpful in this regard.

Fifthly, it should be considered in South Africa to create a single national department which is responsible for the co-ordination and allocation of LED funds to local authorities.

Sixthly, the ELM should explore all the possible government avenues and other sources of funding for LED purposes. A restructuring grant from the National Treasury can eventually help boost and stimulate LED in the region. The ELM's budget is a powerful tool to promote LED in the EMA. The ELM's LED strategies and priorities should also

be reflected more clearly and directly in the municipality's budget annually. LED should get its rightful place in the ELM's annual budget.

Finally, the ELM's officials and councillors should be exposed to training regarding LED strategies and financing. The success of LED in the EMA will be determined to a great extent by the expertise and competency of the ELM's officials and councillors regarding LED.

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