

**LOCAL ECONOMIC DEVELOPMENT AS A TOOL FOR JOB CREATION: A
CASE OF MAFUBE LOCAL MUNICIPALITY**

BY

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DECLARATION

I, TSHOKOLO JERRY MAKHUBO declare that LOCAL ECONOMIC DEVELOPMENT AS A TOOL FOR JOB CREATION: A CASE OF MAFUBE LOCAL MUNICIPALITY is my own work and that all the sources I have used or quoted have been indicated and acknowledge by means of references.

Signature: _____

Date: _____

“Perseverance prevails when all else fails. If you can dream it, you can achieve it”

Edson Corporation CEO-Vivian Reddy

DEDICATION

I dedicate this mini-dissertation to the following people: my late daughter Nandi Makhubo (May, 2002); my late father Puseletso Makhubo (December,2005); and my late little brother Motlalentwa Isaac Makhubo (August ,2008). May their souls rest in peace.

“All that I am is who I have always been”-**Dr Hazel Mutsa Kwaramba**

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**“Please don’t call me arrogant, but I’m European champion and I think I’m a special one”
Jose Mourinho-The only one.**

ABSTRACT

Importance is being placed on local economic development (LED) by the South African government, given the paradigm shift away from viewing local government 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 arouse economic activity and to create jobs in a specific locality.

In an attempt to evaluate the impact of job creation and poverty alleviation, this study investigated the role played by LED as a tool for job creation: a case of Mafube local municipality. Participants included the community members, business people, Mafube local municipality members, especially members of the LED unit.

The study found that, undoubtedly, LED plays an important role since it contributes towards job creation and poverty alleviation. The study recommends that for local governments to be effective in the process of LED, the local government must put in pragmatic and relevant strategies and involve all potential stakeholders in all the stages of the LED process. This should be complemented by efforts of the provincial government to strengthen the local government in the process of LED.

KEYWORDS:

Local economic development, job creation, poverty, rural development, local government and Mafube Local Municipality

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LIST OF ABBREVIATIONS

LED	Local Economic Development
MLM	Mafube Local Municipality
FDI	Foreign Development Investment
PPP	Public Private Partnerships
DTI	Department Of Trade and Industry
LBSCS	Local Business Services Centers
NGOs	Non-Governmental Organisations
SMME	Small Medium and Macro Enterprises
BAC	Business Advice Centre
RDP	Reconstruction Development Programme
EPWP	Expanded Public Works Programme
IDP	Integrated Development Plan
CBOs	Community Based Organisations
NDA	National Development Agency
NEPAD	New Partnership for Africa's Development
CDT	Community Development Trust
SALGA	South African Local Government Association
ANC	African National Congress
LDOs	Land Development Objectives
NIPF	National Industrial Policy Framework
TVEs	Township and Villager Enterprises
SOEs	State Owned Enterprises
NGP	New Growth Path
FDDM	Fezile Dabi District Municipality
SPSS	Statistics Package for the Social Sciences
CDW's	Community Development Workers
EWS	Early Warning System
ICT	Information Communication Technology
HDI	Human Development Index
CFA	Community Facility Assessment
RDP	Reconstruction Development Programme

NSDP	National Spatial Development Plan
NDP	National Development Plan
PHP	Peoples Housing Project
Metsimaholo LM	Metsimaholo Local Municipality
Moqhaka LM	Moqhaka Local Municipality
SDF	Spatial development plan
COGTA	Department of Cooperative Governance and Tradition Affairs
DBSA	Development Bank of Southern Africa
STATS SA	Statistics South Africa
HIV	Human immunodeficiency virus
NWU	North-West University
IDZ	Industrial development zone
Ngwathe LM	Ngwathe Local Municipality
BBE	Black economic Empowerment
OECD	Organizational for Economic Coordination and Development
BRICS	Brazil, Russia, India, China, South Africa
MLL	Minimum living level
LGTA	Local government turn-around strategy
MPCC	Multy-purpose community center
IRIN	International Republican Institute
NBI	National Business Initiatives
SPPII	Study in Poverty and Inequality Institute
NIPF	National industrial policy framework
NFLED	National Framework for Local Economic Development
LEDS	Local Economic Development Strategy

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CHAPTER 1

INTRODUCTION AND ORIENTATION OF THE STUDY

1.1 INTRODUCTION

The role of local economic development (LED) in job creation has been a point of focus in the past ten years (2004-2014). The purpose of the study is to review and evaluate principles, guidelines, strategies and projects related to LED as a tool for job creation. The focus of the study is the Mafube Local Municipal (MLM) area, with specific reference to the Qalabotjha/Villiers and the Namahadi/Frankfort areas. Best practices and case studies will also be analysed as part of the study for possible implementation in such an area.

This introductory chapter provides the orientation and background to the study. The problem statement, hypothesis, research questions and objectives for the study are also outlined. Furthermore, the research methods, including literature review and empirical research are described. The research will analyse the different views of participants like community members, municipal officials, ward councillors, and ward committee representative, and local business people involved in LED. The chapter layout will also be provided. The MLM is a rural area situated in the northern Free State province in South Africa. Therefore, the principle of rural development will also be analysed in other chapters of the study.

1.2 ORIENTATION AND BACKGROUND TO STUDY

According to the South African Institute of Race Relations, as cited in Jones, 2011:1), the unemployment rate in South Africa among 15-24 year old people is 51%, which is more than twice the national unemployment average rate of 25%. South Africa has a population of more than 50 million and its unemployment rate rose to 25,2% in the first quarter of 2012 compared to 23.9% in the first quarter of 2011 (SA News, 2012:1). According to Chikulo (2003:31), the high rates of unemployment resulted from the fragmented economic policies are associated with the apartheid era, which is characterised by sharp socio-economic inequalities and lack of access to economic opportunities.

South Africa has embarked on a New Growth Path (NGP) in a bid to create over 5 million jobs and reduce unemployment from 25% to 15% over the next 10 years (SA News, 2013:1). The same statistics were reiterated by the Minister in the Presidency for Performance Monitoring and Evaluation. The main aim of the NGP is to address unemployment, inequality and poverty by unlocking employment opportunities. The NGP is a broad framework that sets out a vision and identifies key areas where jobs can be created. This will be done through partnerships between key social players, business and government to address structural challenges in the economy (SA News, 2013:1).

The aims of LED in MLM are to generate employment opportunities for local residents, to alleviate poverty; and to enhance a redistribution of resources and opportunities to benefit all local residents(Mafube2011/2012).It is important to note that Local economic development is an on-going process which includes all stakeholders in a local community that involves a number of different initiatives aimed at addressing a variety of socio-economic needs in that community, rather than a single project or a series of steps to follow (Mafube, 2011/2012:8).The aim of this study was to present a critical review of elements related to LED and its potential to create jobs, alleviate poverty and improve the quality of life. Furthermore, the

Study was also aimed at using the information gained via the literature review to investigate a specific case, namely; the MLM.

Local economic development (LED) is about local people working together to achieve sustainable economic growth that would deliver economic benefits and quality of life improvements for all in a specified community (ANC, 1994:34). Nel and Humphrys (1999:277) define LED as "... a process or strategy in which locally based individuals or organisations use to modify or expand local economic activity to the benefit of the majority in community", while other scholars such as Zaaijer and Sara (1993) in Nel and Rogerson (2005:4) define it as "... a process in which local government and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area".

LED is related to economic issues on a local sphere, with its focus on Small Medium and Macro Enterprise (SMME) development and the informal sector. In South Africa, poverty alleviation is in most cases addressed through LED projects and programmes. Funding for these projects are however limited and linked to other projects such as infrastructural projects. Funding for isolated LED projects is not freely available to municipalities. LED is basically an unfunded mandate from central government (Van Wyk, 2004:73).

The World Bank (1990:87) regards LED as an accepted strategy for economic development in local municipalities. Many countries have recently introduced special measures to deal with depressed areas, and as such, have given the responsibility of job creation to local authorities. The World Bank has also set up local development units (World Bank, 1990:87). LED is regarded as an outcome which is based on local people's initiatives and also driven by local communities (Mokgalakwena LED strategy, 2006:8). In essence, LED is the government's strategy to alleviate poverty, aimed at empowering historically disadvantage individuals economically

From a South African Public Administration perspective, Reddy (1998:208) defines LED as a process of strategic planning through partnerships between local government, the business community and NGOs. He elaborates that the objective is to stimulate investment that would promote and sustain high growth in a local community. LED focuses on the local potential and identifies specifically what local stakeholders can and need to do to ensure that their local community reaches its potential (Reddy, 1998:208). From an international context, Wakeford (2000:356) defines LED as local people working together to achieve sustainable economic growth that brings economic benefits and improves the quality of life for all in that community.

LED processes introduced by the communities and the business sector must be supported by local government if the stakeholders want to achieve success. The following key LED strategies have been identified and might assist municipalities in realising their developmental goals:

- Community economic development;
- Linking profitable growth to redistributive development/financing;
- Developmental and maintenance of infrastructure and services;
- Plugging the leaks in the local economy; and
- Retention of existing business (Joseph, 2002:4).

In 2004, the Department of Provincial and Local Government (DPLG) (now known as COGTA) formulated a new LED policy and the main components thereof include, among others: projects must be sustainable; project innovation is important; people are the biggest resources for LED; strong leadership on a local level is necessary; local assets such as land and infrastructure; the natural environment; and the creation of partnerships (DPLG, 2004:7). In terms of Section 152 of the Constitution of the Republic of South Africa, 1996 (the Constitution), municipalities are tasked

with development responsibilities including LED projects. In addition to the Constitution, other pieces of legislation such as the Municipal Systems Act (Act 32 of 2000) also relate to the roles and functions of municipalities. According to McIlrath (2004), the functions of local government concerning LED are:

- Job creation through infrastructure development;
- Policy formulation;
- Co-ordination and integration;
- Support to SMME's;
- Creation of a positive economic climate;
- Facilitate sustainable LED projects;
- LED strategies;
- Provision of information (McIlrath, 2004:91).

This focus of this study is on the capacity of the municipality to implement LED programmes that have the potential to contribute to effective, democratic and participatory local governance which is people –centered for effective service delivery. The focus suggests that there might be a fundamental problem regarding the implementation of LED in MLM.

1.3 PROBLEM STATEMENT

As with other municipalities, the MLM is currently faced with a challenge of high unemployment and poverty rates (see Table 1). The municipality is under pressure to formulate viable strategies to curb the high rate of unemployment. The proposed strategies seek to address challenges such as developing a strategic framework to guide economic development, mobilise local investment and creating jobs, thereby leading to the reduction of poverty in the area (Mafube, 2007/2012:60).

There seem to be a limited support for SMME's and the tourism sector as a critical part of the local economic development by the local municipality. There is a need for improved support to local business, providing shelter for the poor and rendering business social services. According to Mafube (2011/2012:60), a total of 26, 8% of people in the MLM area have no income, 16.6% are employed and 77% live in poverty. The existing community libraries, multi-purpose center, community bakery, computer center and candle making project are envisaged to play a part in job creation.

The key challenges are that many of the residents in the MLM area are very poor and cannot afford to pay for services. The local authority faces imminent threats of power cuts if the municipality fails to pay its service provider, ESKOM. The municipality is also faced with a collapsing infrastructure and majority of residents live in abject poverty exuberated by unemployment and youth who drop out of school (SABC News, 2013:1). Table 1 illustrates the unemployment and poverty rate in different local municipalities within the Fezile Dabi District municipality which incorporates MLM.

Table 1: Unemployment and poverty rate

Local Municipalities	% of people unemployed	% of people poverty
Mafube Local Municipality	33,8	77,0
Metsimaholo Local Municipality	16,0	31,0
Moqhaka Local Municipality	16,8	31,0

Source: Statistics South Africa, (2010: 9).

Unemployment remains a critical concern in the area and figures thereof could be considered to be generally high. When compared with other municipalities like Metsi Maholo, the percentage of the people employed is lower for the MLM area. This can be justified by the number of dependents in relation to the number of people employed in the region, result to a dependency ratio of 1:5.1. It means five people are dependent on one employed person (Mafube IDP, 2012-2017:53).

The MLM is faced with challenges such as: poor infrastructure; underdeveloped towns and townships; large numbers of shacks or temporary dwellings; high levels of illiteracy especially of farm workers; and poverty stricken families who depend on government grants (Mafube, 2011/2012:8).

1.4 THEORETICAL STATEMENT

“The implementation of best-fit LED strategies will result in the creation of job opportunities and reduction of poverty in the Mafube Local Municipality”. The theoretical foundation of this research is informed by the below research questions.

1.5 RESEARCH QUESTIONS

The study was set out to respond to the following questions:

- What is meant by LED and what contribution does it have on job creation?
- What could be learnt from global and local LED case studies such as the MLM regarding LED and job creation initiatives?
- What are the current socio-economic aspects relating to job creation in MLM?
- What recommendations can be proposed to improve the LED strategies for job creation in the MLM area?

In order to address the above research questions, the below research objectives were pursued.

1.6 RESEARCH OBJECTIVES

Flowing from the above research questions, the objectives of this research study are:

- To outline a theoretical exposition of LED and its contribution to job creation;
- To analyse global and local LED case studies such as the MLM regarding their contribution to job creation.
- To analyse the current socio-economic aspects relating to job creation in MLM.
- To propose recommendations improve the LED strategies for job creation in the MLM area.

1.7 RESEARCH METHODOLOGY

This study adopted both qualitative and quantitative research approaches with distinct deductive and inductive features. Literature review and interviews were some of the techniques used for primary data collection. Furthermore, the following techniques as listed by Leedy and Ormrod (2010: 136), which are classified under qualitative research methods, were also used:

- Description, which enables the researcher to reveal the nature of certain situations, settings, processes, relationships, systems or people; Interpretation, which enables the researcher to gain new insights about a particular phenomenon, to develop new concepts or theoretical perspectives about the phenomenon and to discover the problems that exist within the phenomenon; and
- Verification, which allows a researcher to test the validity of certain assumptions, claims, theories or generalizations within real-world contexts.

It is against this background that recommendations would be proposed on how to improve the effectiveness of LED in the quest for job creation the MLM area. Therefore, literature review was primarily employed to lay the foundation of this study.

1.7.1 LITERATURE REVIEW

Both primary and secondary sources were utilised. Primary sources used include academic books, journal articles and published conference proceedings. Secondary sources used include local government reports and policy statements. According to Henning, *et al* (in Brynard & Hanekom, 2006:31), in a literature review, a researcher should bear in mind that any document which relates to the topic of the research, whether printed, handwritten or in any other format, whether old or new, should be included in the survey of the literature. The literature review was supported by the empirical survey.

1.7.2 EMPIRICAL SURVEY

1.7.2.1 Interviews

Interviews conducted were based on semi-structured questionnaires, and included face-to-face interviews. Interviewees were conducted with the following people in the MLM:

- Four municipal officials responsible for IDP & LED at Mafube Local Municipality;
- Four ward councillors (in wards 3, 4, 5 and 7);
- Four ward committee representatives in wards 3, 4, 5 and 9;
- MMC for Development & Planning at Mafube Local Municipality; and
- 40 Local business people (20 per area of Frankfort and Villiers).

The purpose of interviewing local officials was to bring unknown perspectives to the fore and confirm the researcher's own views (De Vos *et al.*, 1998:181). The purpose of the interviews with local business people was to determine what barriers are preventing economic development in the area.

1.7.3. COMMUNITY SURVEY

Questionnaires were sent to 200 respondents per area of Namahadi Township and Qalabotjha Township. The sample size of the survey was made up of a 5% sample of the total population of 60980 in MLM. The basic objective of the questionnaires was to obtain facts and opinions about

LED aspects from poor people who are affected by the particular issues (De Vos *et al.*, 1998:153)

1.8. PRELIMINARY CHAPTERS

The following chapter will be included in the research:

Chapter 1: Introduction, background.

Chapter 2: Theoretical analysis of LED and job creation.

.

Chapter 3: Literary review of global and local best practice analysis.

Chapter 4: Empirical research methodology

Chapter 5: Presentation of results: socio economic analysis

Chapter 6: Summary, Limitations of the study and recommendations

CHAPTER 2

A THEORETICAL OVERVIEW OF LOCAL ECONOMIC DEVELOPMENT

2.1 INTRODUCTION

In an effort to rebuild the South African economy and state structures, the ANC-led government agreed on the country's long-term development plan in 1994. Meeting the basic needs of communities is one of the critical challenges facing local government in South Africa. This chapter provides a detailed overview of the concept of Local Economic Development (LED) and other related concepts. Municipalities have focused primarily on growing local economies and extending the provision of services to areas that were previously neglected (Project Consolidate 2005:2).

LED represents an approach to economic development which encourages local people to work together to achieve sustainable economic benefits and improved quality of life for all local residents. LED programmes are intended to maximise the economic potential of all municipal areas around the country, and to enhance micro-economic growth, increased local growth, employment creation and development initiatives, within the context of sustainable development (DPLG 2004:44). Local people are encouraged to work together, and to make sure there is local growth in the particular municipal area.

Implementation of LED programmes often requires broad-based, comprehensive initiatives through public/private sector partnerships that are driven or led by the local municipalities. The private sector is often keen to manage initiatives aimed at improving the vitality of town centers and to be involved in business development initiatives. Community groups may seek to lead initiatives to improve the economic conditions of the targeted group of disadvantaged individuals (World Bank Report 2000:7). In this chapter, the nature and meaning of LED will be discussed, including its objectives such as job creation, rural development, poverty, history and background, as well as its importance and guiding principles.

2.2 CONCEPTS DEFINED

The chapter provides a detailed overview of LED from a South African perspective. It examines various definitions of LED; Strategies of LED; planning and implementation of LED; role players in LED; LED and institutional arrangement.

2.2.1 Local Economic Development

LED is described as outcome based on local initiatives, driven by local stakeholders. It involves identifying and using local resources, ideas and skills to stimulate economic growth and development (Mufamadi, 2000:1). Several authors have different opinions on the concept of LED (Trah, 2004; Pike *et al.*, 2007). For the American scholars, LED represents increases in a local economy's capacity to create wealth for local residents (Bartik, 2003:10). Trah (2004:1), paints a wider canvas of LED as a territorial concept and part of local development or regional management, specially aiming to stimulate the local economy to grow, compete and create jobs, in particular by making better use of locally available resources'.

LED is considered to be a process in which partnerships between local governments, NGOs, community based groups and private sector are established to manage existing resources, to create jobs and stimulate the economy of a well-defined territory (Helmsing & Egziabher, 2005:1). Gwen *et al.*, (2006), in a World Bank report on LED, defines LED as a policy approach that is used to build up the economic future and quality of life for all. The complementary definition from the South Africa's Small Enterprise Development Agency (SEDA) is that "... LED is an approach towards economic development which encourages local people to work together to achieve sustainable economic growth, bringing economic benefits and improved quality of life for all residents in a local municipal area" (SEDA, 2008).

The DPLG (2006:4) defines LED as referring to deliberate interventions to promote economic development in a specific local area. The approaches to LED have been developed and changed as local economies have had to respond to the changing local impacts of the global economy. Blakey (1994:16) describes local economic development (LED) as 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 new jobs and stimulate economic activity in a particular economic area. In other words, LED involves identifying and using primarily local resources, ideas and skills to stimulate economic growth and development.

According to Zaaijer and Sara (1993:1) LED is a vehicle based on local development driven by local residents. It involves identification of local resources, including ideas and skills necessary for anticipated economic growth and development. This initiative recognises the importance of involving people for their own benefit. It espouses the full effective and efficient utilisation of resources of natural and human labour.

LED enables individuals or organisations to 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 higher-level government (Nel & Humphrys, 1999:27). Mohr (2004:659) concludes that LED refers to the improvement of living conditions, and quality of life in less development areas. It aims at development in the quality of life of the majority of the population, resulting in an increase in potential production, reduction of inequality and eradication of absolute poverty.

The role of municipalities in LED includes:

- support for small and medium business through the provision of training and support mechanisms and creating optimal infrastructure, like SMME incubators;
- training and capacity building initiatives;
- targeted investment to boost potential growth sectors, e.g., tourism, knowledge industries; pro-localism procurement and servicing policies;

- simplifying regulations and by-laws to stimulate, rather than hinder, economic development;
- place marketing to attract tourists and, importantly, potential investors; and
- defining the municipality as an economic player in the local economy with considerable clout and leverage capability (Du Plessis & Thomas, 2007:21).

Swinburne *et al.*, (2006:3) argue that the main purpose of LED is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. Parray and Syebubakar (2008), conclude by arguing that there is no clear definition. Thus for the purpose of this study, LED is generally defined as a strategy to promote economic opportunities and growth at the sub-national level by addressing constraints and improving the overall business environment to encourage entrepreneurial behaviour and investments. Given this definition, LED is viewed as a process which involves the community, local government and business people to better lives of the people in particular area. It is all about economic growth, job creation, thereby improving the lives of the people who reside in that area or jurisdiction. In essence, the money will circulate or revolve around that community for the upliftment of inhabitants in that area.

2.2.2 Job Creation

The South African economy has a world recognised first economy which is cutting edge and global competitive (Ligthelm, 2006:41). This achievement is unfortunate undermined by the fact that there is a large number of the population that remain unemployed due to geographic location, level of skills and structure of the economy (Gumede, 2008:15). This is often called the second economy which has been earmarked by the government through the Accelerated and Shared Growth Initiative of South Africa (Asgisa, 2009). The government has a role to play in job creation and this role is very limited. The employment opportunities created by the EPWP tend to be temporary and some training has been achieved. Unfortunately there is challenge to absorb these workers into existing businesses.

The Department of Public Works (2009:249) hopes that the skills gained by the workers, for example in construction, will enable them to start their own businesses and thereby create employment opportunities. This strategy can further be defined as a process of providing new jobs, especially for the unemployed (Cambridge Dictionary, 2011:1). The government can stimulate job creation when it invests in projects that improve and create new services. The other way that the government can create jobs is by issuing special grants for private sector for infrastructure, engineering, defense, justice, etc. (PR newswire, 2013:1).

2.2.3. Rural Development

According to the Rural Development Framework (RDF) a rural areas are defined as sparsely populated areas where people live on farms or depend on natural resources, including the villages and small towns scattered across those areas. Gopaul (2006:6) elaborates that the rural clusters in the former homelands (large settlements without an economic base except for transfer payments) are also included in the definition of rural. Unemployment and poverty have for a long time been

the two major problems in the rural areas of South Africa. Therefore, rural development is critical in a democratic South Africa.

Rural development is multi-faceted in nature. It unfolds into a wide array of different and sometimes interconnected practices which include landscape management, the conservation of new nature values, agri-tourism, organic farming and the production of high quality and region-specific products (Twala in Van Der Ploeg *et al.*, 2000:3 According to Olayiwola (2005:57), rural development can also be defined as a sociological concept in which the rural poor represents a reservoir of untapped talent, or a targeted group that should be given the opportunity to enjoy the benefits of development through improved education, health and nutrition. It may be seen as an ideology and practice of planned change by public agencies based outside the rural areas, such as national government and international organizations.

According Anriquez and Stamoulis (2007:2), rural development refers to development that benefits the rural population, where this is understood as the sustained improvement of the population's standards of living or welfare. The OECD (1994:10) posits that the term can also be defined as medium- to long-term changes and adjustment in technology and ecology, economy and society. These aspects could also be regarded as rural indicators. Thus, a rural indicator should provide information on a variety of economic and social factors. Rural development needs the careful attention to lift up the lives of the people in those areas. Rural development needs serious attention from all stakeholders to improve the living standards of rural dwellers by engaging them in productive activities such as rural industries that will in turn create their income.

2.2.4 Poverty

In this chapter, poverty is defined because poverty is highly prevalent in rural areas when compared to the urban areas. Poverty can thus be defined as the inability to attain minimum standards of living determined by factors such as low income, human under- development, and social exclusion, lack of capacity and functioning, vulnerability and lack of basic needs (Rural Development Strategy, 1995:13). The World Bank (2001:1) defines poverty as a lack of command over commodities in general deemed to constitute a reasonable standard of living in a society, or lack of ability to function in a society. This definition also emphasizes command over resources as well as the lack of participation or 'voice' in governance and civil matters. According to May (1998:3), poverty can be defined as the inability to attain a minimum standard of living, measured in terms of basic consumption needs or the income required to satisfy them. This definition runs in tandem with the measurement of poverty employing the Minimum Living Level (MLL) as the accepted poverty datum line in South Africa. Poverty can mean different things to different people. To Kuhl (2003:4), poverty is the propensity to suffer a significant welfare shock, bringing the household below a socially defined minimum level. Poverty is a concept that captures a range of meanings. One important strand in the debates on poverty is the notion of a lack of material, especially the resources necessary for survival. Poverty studies and definitions have mostly resorted to identifying what goods a human being would require to prevent him/her from starvation. The Studies in Poverty and Inequality Institute (2007:10) concurs with other authors by defining poverty as the inability to function as the member of the society. Individual dignity is also an important factor in defining poverty. Poverty can result in people giving up their self-respect, or being unable to fulfill their minimum social obligations. Another important consideration is that of subjective experiences. People are considered poor if they experience forms of deprivation that lead to suffering. Poverty is the single greatest burden of people living in Africa, afflicting millions who are faced by unemployment. The Studies and Inequality Institute (2007:10) Poverty is a human problem which requires all stakeholders to come together to formulate a strategy for improving the lives of the people. Thus LED is said to be playing an important role in addressing poverty in the local government (The Studies in Poverty and Inequality Institute (2007:10)).

2.3 HISTORY AND APPROACHES TO LED

Since LED is not a new concept, in the below sections, the historical origins of LED are presented. Therefore a historical overview is narrated from a global perspective first, before localising it.

2.3.1 HISTORY

According to the World Bank (2001:28), from the 1960s, LED worldwide passed through three broad stages or 'waves' of development. In these waves, LED practitioners have developed a better understanding of successful and unsuccessful programmes. LED is currently in its third wave.

The first wave was from the 1960s to 1980s, when the focus of LED was on attracting industrial investment, hard infrastructure investment and outside investment like foreign development investment (FDI) (World Bank, 2001:29). In the second period, from the 1980s to the mid-1990s, the focus moved towards retention and growth of existing local businesses, with an emphasis on attracting inward investment. To achieve this, cities/towns provided direct payments to businesses, as well as advice, training and technical support for small and medium-sized firms (World Bank, 2001: 29). LED waves come along way first and second wave the main purpose being attracting investment both in and outside for small and medium local business .

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

Nel and Humphrys (1999:277) state that the commitment of South Africa's new administration after 1994 to promote LED as the solution for its most disadvantaged areas, has occurred in the

“post- Fordist” era, when thinking about development was 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 economic development of deprived areas became much clearer.

Keynesian demand management and welfare policies that helped to rearrange 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 (Nel & Humphrys, 1999:278).

2.3.2 The Importance of LED

Van vuuren (2003) lists the following reasons why municipalities should have LED strategies in South Africa:

- LED provides logical techniques in which to address the *apartheid* legacy by addressing the socio-economic inequalities and promoting urban integration, job creation and service provision;
- LED can fund local employment, empowerment and wealth generation;
- LED can, straight or indirectly, promote economic development and empowerment of community groupings;
- LED rises income levels and enables people to pay for services. It broadens the tax base and the revenue base of the local authority;
- LED enables the local authority to deliver more and better services and facilities to the local citizens;
- LED government councillors are elected on the mandate to undertaken development. The local government is a dominant player in a local economy and is well-positioned to

embark on development;

- LED constructs new institutions for sustainable economic development and promotes linkages between development and under-development zones;
- There are not enough solutions in South Africa to allow a welfare solution. Increasing local economic initiatives have to be undertaken because fiscal constraints on national and provincial government encourage and oblige local level of action; and
- LED can be section 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. LED can be a “grass roots” match to “top-down” national development (Van vuuren, 2003:35).

According to Ramukumba (2012:10), Nel *et al.*, (2009) differ with Van vuuren when highlighting the following reasons on LED:

- Local authorities are over- stretched;
- Planning often becomes short-term and politically based, and longer term strategic interventions are side-lined;
- LED is often subsumed in community development debates, which creates confusion on the part of the business sector regarding their role in such processes, and community enterprises do not benefit or experience success; and
- LED emphasizes local control, using the potential of human, institutional and physical resources. Initiatives mobilize actors, organizations and resources; develop new institutions and local systems through dialogue and strategic actions (Nel *et al.*, 2009:233).

2.3.2 LED guiding principles

Dauids (2004:4) provides the following four principles of LED:

- LED is a close by driven process designed to identify, harness and utilize resources to stimulate the economy, and to generate new job opportunities. LED is not one specific action or programme; rather it is the sum total of the individual contributions of a broad spectrum of the community. It occurs when local authorities, business, labour, NGOs and individuals, strive to improve their economic status by combining skills, resources and ideas.
- LED is a participatory process where local people from all sectors work together to stimulate local commercial activity, resulting in resilient and sustainable economy. It is a tool to help to create jobs and improve the quality of life for everyone, including the poor and marginalized. LED exists only when it encourages the public, private and civil society sectors to establish partnerships and collaboratively find solutions to common economic challenges.
- The LED process seeks to empower local participants in order to effectively utilize business enterprise, labour, capital and other local resources to achieve local priorities, e.g., promote equality, reduce poverty, stabilize the local economy and generate municipal taxes to provide better services.
- LED embraces local values such as increased self-reliance, satisfying basic human needs, mutual commitment, and integrated social and environmental objectives. It will utilise economic drivers for growth in jobs and income. LED is not a quick fix or wish list.
- The bulk of resources must be prioritized towards those projects which best supports the areas primary vision (ALOSOGUL, 2006:150);
- LED projects need to make business sense. Red tape procedures need to be limited and economic base data need to be available before investors will invest in the local economy. You cannot manage what you cannot measure, base data need to be available in order

to assess success of strategies and projects. Governments do not create jobs but provides an environment in which business and entrepreneurs can flourish. Reward and publicize success stories and best practices achievements regarding LED. This will inspire other people to greater efforts (ALOGOSUL, 2006:151).

2.4 LOCAL ECONOMIC DEVELOPMENT STRATEGIES, PLANNING AND IMPLEMENTATION PROCESS

In this section, LED strategies, planning and implementation process are discussed. A number of methods to economic development have been adopted by municipalities everywhere. Each rests on specific assumptions about local authorities. Six approaches can be distinguished (Department of Constitutional Development, 1998:8). Traditional approaches assert that the key to prosperity is attracting investment (primarily manufacturing), through concessions such as tax break, 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 tourist 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.

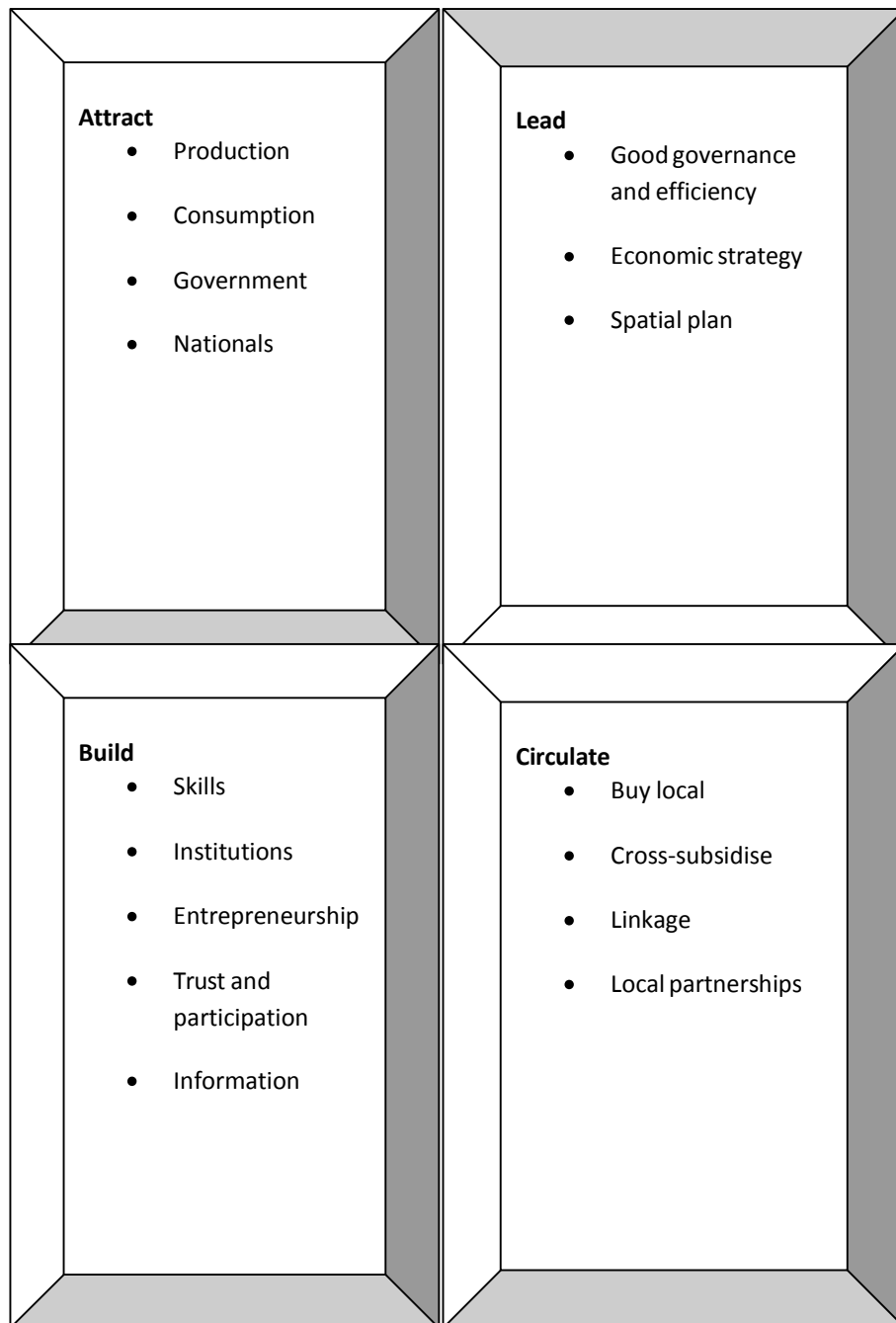
Entrepreneurial-competitive strategies emphasise the importance of local comparative advantages and small businesses in job creation. Local authorities play an important part in identifying growth sectors and in supporting businesses through research, consultancy, premises, technical infrastructure and even loans or grants. The Department of Constitutional Development (1998:8) states that urban competence 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 attained by cutting taxes and service charges and by privatising services if and where possible.

Human resource development is also recognized as a key focus for LED strategies. The argument is that low skill levels, particularly amongst the poor, influence investment negatively. Local

authorities must upkeep 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 straight 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 openly aim to link profitable growth and redistributive development. An illustration 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, 1998:9). Nel (2001:1007) states that some of the LED strategies pursued by authorities involved in local government include financial support; land and building development; information and marketing assistance; new planning and organisational structures; and training and development. It is imperative in practice to realize the right balance between these LED approaches based on every community's unique circumstances. Figure 2.1 shows four concrete building blocks for LED.

Figure 1: Building blocks for LED



Source: Department of Constitutional Development, 1998:9.

LED support procedures in South Africa include the following (Richards & Stetten, 2000, 112):

- (a) 1996 Constitution;
- (b) 1996 Local Government Turn Around strategy; and
- (c) 1998 Local Government White Paper.

Legislative framework encouraging LED by local governments include the Constitution of the Republic of South Africa, 1996; the 1996 Local Government Turn Around strategy (LGTA); and the 1998 Local Government White Paper, as discussed in section 2.3.2. Most 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. Local Economic Development is contained in the IDP process undertaken by all local authorities. The DPLG supports LED and supervises 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 broader level, spatial development initiatives will encourage LED at localities in identified growth corridors. Local business services centers (LBSCs) have been established at local level to promote small business interests. Numerous Ministries, including Public Works, Agriculture, Welfare and Labour, are managing programmes that impact on local development.

Richards and Stetten (2000:6) state that more common LED approaches and strategies worldwide and in South Africa, available to indigenous authorities, NGOs, governments, business and community groups, include promotional and trade support processes such as investment attraction,

export promotion and tourist promotion. Other approaches include business support and infrastructure development such as partnership preparations for business development and infrastructure delivery, business support for the informal sector and housing programmes; as well as employment and training support such as public work programmes, skills development, training and employment centers. Organisational arrangements include reinforcement of partnerships and NGO activity, and creation of community development corporations and development companies; while regulatory environments such as joint venture/partnerships, the advertising of agriculture, small business, the informal sector and large business support, as well as housing and infrastructure programmes, are common LED strategies.

2.4.1 LED Strategies

The LED strategies are developmental and maintenance of services infrastructure, retaining and expanding services, preventing a drain of resources from the local economy, community based economic development, developing human capital development, expanded public works programmes, industrial recruitment and marketing, plugging the leaks in the local economy, export and international trade and other LED strategies.

2.4.1.1 Developmental and Maintenance of Services and Infrastructure

The strategy focusing on the expansion and maintenance of services and infrastructure is the key component of municipal service delivery, and in most cases it addresses past inequalities by rendering basic services to the people. If it can be done properly it will assist cost operative municipal service delivery by boosting business confidence within that municipality. Section 96(i)(a) of the Municipal Systems Act, 2000 (Act 32 of 2000) stipulates that municipal councils need to select a service delivery mechanism that will most effectively and quickly extend services to subserviced or under serviced residents and communities in the municipality with the best quality services at lowest overall cost to the municipality, residents and consumers. This is known as the engine of economic development, as there could be no stimulation of the economy without water, electricity, sanitation, roads and other key facilities, such as health, recreation, housing and settlements and educational facilities.

The impact of infrastructure and service provision can be both short term and long term. Reddy *et al.*, (2003:180) approved that infrastructure development, can create job opportunities for the poor, and can stimulate economic activity that results in more permanent jobs. Van der Waldt (2007:143) further supports other authors on infrastructure maintenance and service delivery by saying that local conditions determine the relative economic advantage of an area and its ability to attract and retain investment. Small towns and their surrounding rural regions can develop economic opportunities at national or international level by building their economic strengths. The district municipality is given the task of providing the bulk of services to surrounding local municipalities. Their responsibility has played a major role in facilitating LED projects.

2.4.1.2 Retaining and expanding services

The Policy Paper on Local Economic Development (2002:8) entails municipalities to give attention to retaining and expanding their current businesses. This would help local businesses to improve their productivity, increase market share and graduate to higher value-added levels in the production chain. In terms of retaining, the municipality is required to devise measures which would ensure firms within the area do not relocate, but rather stay and expand.

One benefit of retaining businesses within a municipal area is that it also aids to attract new industries to do business in that area, promoting small, medium and macro enterprises (SMMEs). The support that municipalities should provide in this respect includes growth of business skills, establishment of business infrastructure and offering technical support through business advice centers (Reddy *et al.*, 2003:181).

The community services provided by the local municipality use a small part of the budget yet, because they improve social conditions and the well-being of the community, they are of

significant value to the public. These services include community halls, sports and recreational facilities, toilets, libraries, arts and culture, resorts, beaches and swimming-pools, child care, old age homes, cemeteries and crematoria. Such services, when rolled out to areas and communities previously excluded, have a positive impact on poverty reduction, employment creation, quality of life, civil society, and social problems such as crime and drug abuse, education and training, recreation and leisure (Van der Waladt, 2007:143).

2.4.1.3 Preventing a drain of resources from the local economy

The SMMEs development is regarded as a key strategy in promoting Local Economic Development in that it generates jobs while empowering historically deprived individuals. Blakley (1994:203), supports this affirmation by stating that this is the sector that has shown great employment potential in South Africa over the past few years. Municipalities are therefore estimated to provide professional advice and assistance to small businesses in the area of management, marketing, accounting, financing, sourcing resources and problem solving.

Most of the time, municipalities are not able to provide necessary support to SMMEs, because they themselves need professional advice on locating resources and solving problems resulting from a lack of expertise and/or adequate infrastructure. The importance of SMMEs in South Africa cannot be overemphasized. This sector partakes in the national economy through encouraging economic growth by creating jobs - hence helping to redistribute wealth throughout the economy - enhancing poverty alleviation and promoting social stability (Government Communication & Information System, 2002:22). A viable local economy depends on preventing the drain of resources from the community. The SMMEs should be encouraged to procure among themselves as far as possible, and to form business forums or organisations. The aims of SMMEs should be:

- developing local investment through local business channels which will in turn improve SMMEs capital stock;
- developing local skills and increased job opportunities by using local materials; and

- Allowing for diversity which is good for creating a healthy and stable local economy.

In the White Paper on National Strategy for Development and Promotion of Small Business in South Africa (2005:10), the government assigns the SMME sector a key role in South Africa's socio-economic move. SMMEs are seen as a vehicle to convey the following to communities:

- address the problem of high unemployment in South Africa as they have the volume to create employment;
- encourage domestic competition by creating market places for localities in which they grow until they identify the need for expansion in response to demand changes, and to be internationally competitive because of their flexibility;
- compensate the inequalities inherited from the *apartheid* era, and in terms of designs of economic ownership and restricted career opportunities for black employees;
- stimulate and ensure black economic empowerment because the majority of SMMEs are still owned or controlled by those members of society who were advantaged in South Africa's past; and
- SMME's play a critical role in people's efforts to meet basic needs in the absence of social support systems during the restructuring processes. This refers in particular to the micro-enterprise segment in South Africa, and especially survivalist activities characterized by low entry barriers for inexperienced job hunters.

The small business sector in South Africa needs financial support so that it can significantly help to create employment opportunities to address the levels of unemployment. Indigenous 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 measures 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 center that is the key contact point between all types of businesses

and the local authority. One-stop shops or centers simplify the contacts that businesses need to have with government, by streamlining and expediting approval processes and other procedures (International Republican Institute & National Business Initiatives, 1998:9).

Additional highly effective way in which local authorities can assist SMMEs is by working with stakeholders' 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 centers 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), for example, has played a pioneering role in the development of emerging businesses, and is one of the first LBSCs to become fully accredited by the Department of Trade and Industry (International Republican Institute & National Business Initiatives, 1998:9). The local administration can play its role by assisting the local business on the information in the issues such as how to license, tender process, zoning and building approvals in that way they will make life easier to local business.

2.4.1.4 Community-Based Economic Development

Community based economic development have a number of broad aims:

- To stimulate a sense of community;
- To improve self-help and empowerment;
- To contribute to the generation of self (self-employment);
- To improve living and working conditions in settlements; and
- To create public and community services (Helmsing, 2001:65).

According to Reddy *et al.*, (2003:182), community-based economic development emphasizes on combining employment, training, mentoring and enterprise development, to enhance access to, and creation of jobs, resulting in self-sufficiency for disadvantaged communities.

This strategy must include the training of enterprise owners through the Department of Labour, small municipal financial support, or municipalities leveraging external funding to support income generating projects. The beneficiaries should be trained to manage funds and be able to create jobs for themselves. This, according to LED Policy, is termed 'pro-poor intervention'. If not healthy managed, it may lose direction and jeopardize the entire functioning of the LED. In order for these strategies to make a significant impact, they must be shared with other relevant strategies, such as creating marketing opportunities for small projects which could help sustain them (Reddy *et al.*, 2003:182). The development focus is on the empowerment of the community to develop sustained provision of basic services as community resources. They must address the needs of communities which have low literacy levels and limited or no skills base. It can include the projects that can help or be used in promoting and encouraging community- based economic development includes the following:

- Water provision and sanitation;
- Water usage awareness;
- Provision of low cost housing;
- Community drama;
- Agricultural projects/production; and
- Small-scale entrepreneurial activities.

The wider the range of jobs and activities that are created in an area, the more people will provide services to each other, and the more markets will be created and money circulated (Van der Waldt, 2007:144). Community development will be of beneficial if economic development can include water provision, job creation will caretaker for many.

2.4.1.5 Developing Human Capital Development

To safeguard that LED brings social and economic benefits often requires investment in human capital through skills development and education. The skilling of local people is important because it can promote higher wages. There are plain linkages between promotion of living wages and human capital development, because a well-paid, healthy and sound educated workforce is more productive than otherwise (LED Policy Paper 2002:8; Reddy *et al.*, 2003:183). This implies that the strategy emphasises on human capital development since skilling the poor in the communities can increase their chances of access to participation in the local economy.

This approach is key to ensuring that the holistic development outcomes of both economic as well as social benefits are realised. This is only achievable with direct linkage between “living wages”, human capital development and productivity. Minimum wage enforcements and emphasis on Corporate Social Responsibility (CSR) are ways of ensuring that resources and benefits are circulated within local communities (Isaacs, 2006:67).

Community development is an essential component of every municipality's implementation of training and skills development programmes to help local people access new economic opportunities, and to gain employment or start new businesses.

2.4.1.6 Expanded Public Works Programmes

The Expanded Public Works Programmes (EPWPs) is one of the government's short term programmes aimed at the provision of additional work opportunities coupled with training. It became a national programme covering all spheres of government and state- owned enterprises. It can provide poverty and income relief through temporary work for the unemployed, and carry out socially useful activities (Kobokana, 2007:18).

The Rural Development Strategy (South Africa 1995) supports the argument by encouraging labour-intensive methods for all construction carried out by government departments. Such methods, which should also be used by clinics, schools and other normal infrastructure development, include:

- changing the applicable regulations, especially when involving procurement and tenders;
- ensuring that the necessary education, training and technical development occurs for labour intensive construction methods;
- building the capacity of civil society to respond proactively to the programme;
- ensuring that RDP processes are followed with respect to business plans and use of key performance indicators; and
- Establishing monitoring and evaluation Rural Development Strategy (South Africa 1995:6).

The EPWP is based on promoting labour-intensive projects by creating and providing employment opportunities for many local people. These in short tell us that communities and municipalities must lobby to ensure that all government projects use labour intensive techniques for local employment. They can apply to national or provincial government for funding for special employment projects for the poor. The National Public Works Programme, for example, aims to provide jobs, create infrastructure to develop human resources through training programmes and to empower communities. According to Van der Waldt (2007:144), the EPWP is mainly targeting and benefiting

the poor. The EPWP is good in that it encourages massive and intensive labour, which in turn is good for job creation.

2.4.1.7 Industrial Recruitment and Marketing

Most energy and planning in many western countries have gone into image making and place marketing. Places like heritage cities, cultural cities, and new civic centers are efforts used by city councils to promote an area as an appealing destination, and to improve its attraction for commercial, retail and government investment (Reddy 1996:218). Inviting new industries to the municipality, together with promoting and advertising a local area for people, business and industries to see the municipal area as a required place to visit, stay and invest, explains this strategy. Factories and individuals consider a number of factors before making such a decision; this includes, *inter alia*, the cost of living and that of production, closeness to local markets for products, location of suppliers, accessibility of research and development institutions, access to transport networks, and, most importantly, whether the municipality offers good infrastructure and services. The accessibility of recreational facilities can influence such decisions, together with the quality of education centers, as well as societal risks, such as crime and health services (Reddy *et al.*, 2003:182). This gives municipalities a significant role in creating favourable environments for investment.

2.4.1.8 Plugging the Leaks in the Local Economy

It sometimes becomes crucial to stop the out-flow of money from poor areas by encouraging people to buy locally, supporting and building periodic markets, funding special events and local festivals, providing infrastructure using local labour and locally manufactured materials, promoting employee training and networking enterprises of all sizes in the local area. LED could be promoted locally if hard earned cash could be spent on local markets rather than to advanced and bigger industrial towns (LED Policy Paper, 2002:8).

Leaks are inevitable in every local economy because of a lack of money, or failure to make money circulate for as long as possible. This usually happens where, for instance, industries from small towns become dependent on large towns for their suppliers and markets. The strategy for plugging the leaks is by identifying and locating them, and then by developing the means to address them (Reddy *et al.*, 2003:182). The more people supported local based industries the more that particular area will create more jobs for the indigenous people.

2.4.1.9 Export promotion and international trade

Towns can help to make local companies more competitive by pursuing sectors in which they have a comparative and competitive advantage, and by providing support to certain sectors to help them to contest internationally. In other words, municipalities can assess the global market, to spot chances to export products and services that can be produced locally and competitively. They can then provide targeted support to local business to help them produce competitive products and services and to help export them to foreign markets (DPLG, 2000:6).

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Towns, particularly those in urban areas, are increasingly creating their LED strategies on export promotion and international trade. We live in an era of globalization and international competition. This means that companies contest with one another on a global basis for example, a local shop could be selling televisions made in ten different countries. South African companies have to contest against a range of international companies producing the same product (DPLG, 2003:40).

2.4.1.10 Other LED strategies

This one is also important to remember that within each category of LED strategy, there is wide range of LED instruments. The International Republican Institute & National Business Initiatives (1998:37) refers to nine LED tools and strategies that local authorities use, or might use, in South Africa. SMME development and business retention, expansion and attraction are discussed above. The other tools and strategies which are sometimes related to the above-mentioned strategies are:

- Development of creative and effective regulations and by-laws.
- Local authorities can play an active role in encouraging growth and development by creatively utilizing their own land, buildings and other assets. Many local governments can, for example, transform disused warehouses or other buildings into small business incubators or 'hives'.
- Human resource development stands 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 the information they require to find and secure employment. Establishment of the EThekweni Business Development Centre in 1997 in the Durban area is one example of an institution helping city residents to build skills. This can lead to sustainable small businesses.
- Local authorities know how to often magnify the impact of their own efforts while reducing costs by forging regional linkages. These can comprise development of coordinated advantages, such as marketing strategies, tourism development or infrastructural plans with neighbouring localities. The Midlands Meander in KwaZulu-Natal is a noble example of this LED strategy.
- Municipalities in South Africa, like many worldwide, remain faced with increasing demands

for improved services, fiscal constraints and competition for resources. Many successful local authorities are replying to this challenge by exploring PPPs as ways to improve service delivery.

2.5 The Planning and Implementation of LED

2.5.1 The Planning Cycle

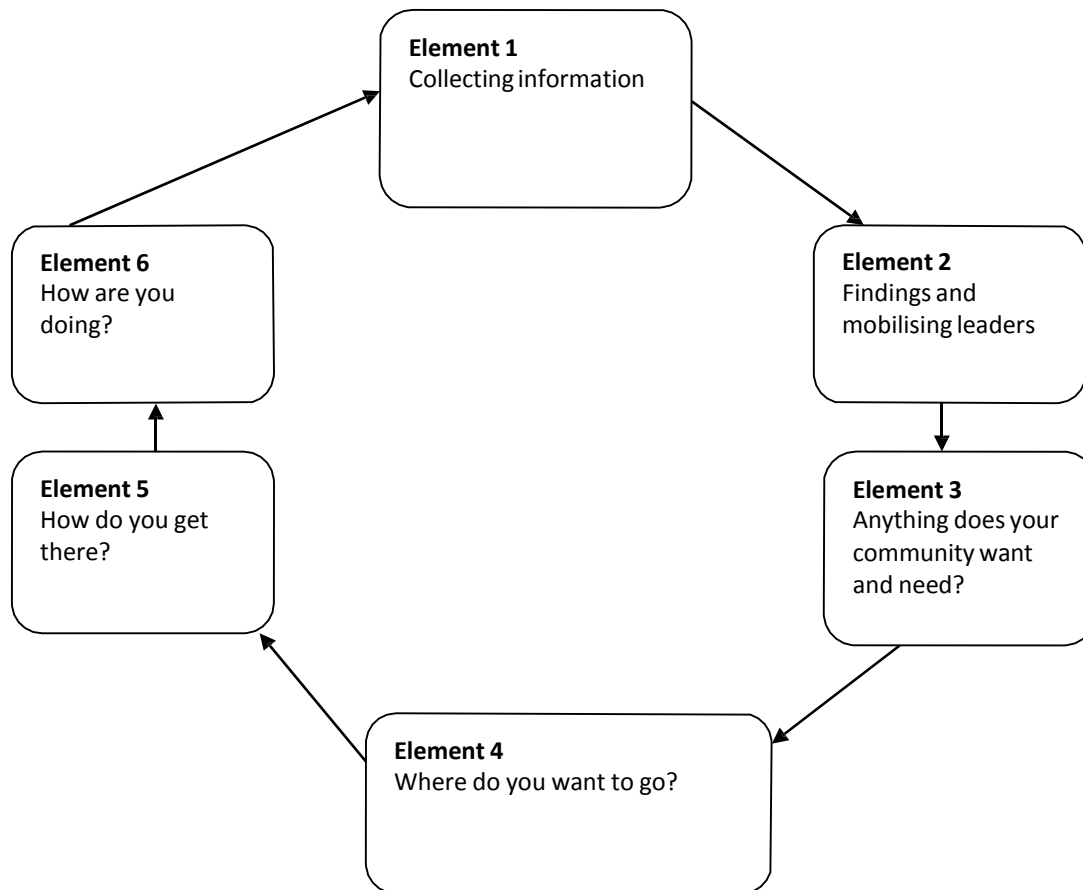
The International Republican Institute & National Business Initiatives (1998:42), states that the first element of the LED planning phase is for the local authority to collect information on the local economy. Examples include demographic trends, physical and infrastructure characteristics, economic 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 organizations.

The second element of the planning cycle is to identify and mobilize dedicated and competent leadership within the local authority and within the community. Important stakeholders in a locality, include the local authority itself, formal and informal business, organised labour, NGOs, ratepayers, educational institutions, women's groups, youth organisations, religious groups and even the unemployed. Once leaders are identified, they must be mobilised in task teams

Thirdly, it is significant find out what the community wants and needs. Useful methods to consult the community to obtain relevant information are wards meetings, surveys, public meetings, workshops, advisory groups and task teams, and also a community SWOT analysis. This facts can form the basis of an economic vision for a specific locality (International Republican Institute & National Business Initiatives, 1998:45).

Fourthly, a locality - local authority and community - need know where it wants to go. A local authority should have an economic vision for its locality. The following 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 consisting of choosing 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 those who will be affected by the strategy. Finally, it is important for a community to know how it is progressing. To determine whether it is off target to achieve its vision, feedback sessions are very important, and the vision and strategies must be evaluated consistently in order to ensure that they are meeting the original mandate (International Republican Institute & National Business Initiatives, 1998:46).

Figure 2: Planning cycle of LED



Source: International Republican Institute & National Business Initiatives, 1998:47

Planning Local economic development is an important part of municipal planning. Every Municipal Council needs a planning process to help it formulate objectives for the development of its municipal area. It needs to set up priorities, and to decide how to structure the municipal budget and administration towards realising purposes. The municipal planning process revolves around development of the IDP comprehensive plan for development of the local area. It includes the following components:

- Long-term vision;

- Growth of priorities;
- Development objectives;
- Development and operational strategies;
- Spatial framework; and
- Assessment of existing level of development.

According Case (2001:47), every municipality should have an Independent Development Plan (IDP), because, through the IDP, it is informed about the problems affecting its own municipal area. It helps municipalities to make effective use of their rare resources, and enables them to search for more effective solutions, and to speed up service delivery.

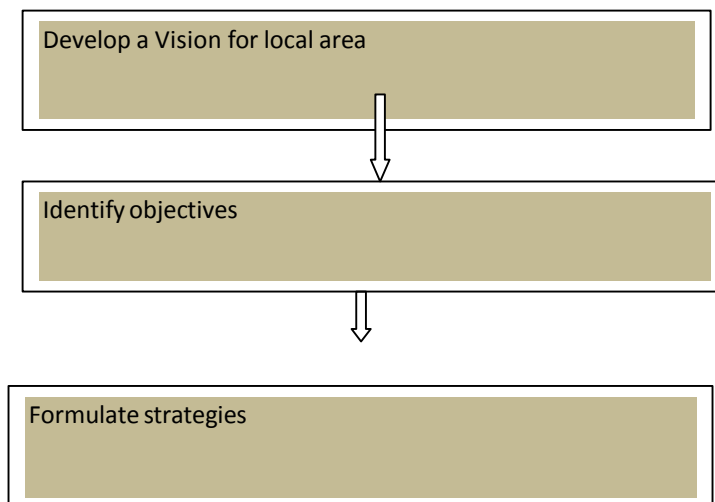
2.5.2 Planning for LED

Planning for LED is fragment of developing an IDP. Municipal development purposes 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 need to formulate strategies, which could consist of LED programmes and projects (DPLG, 2003:102).

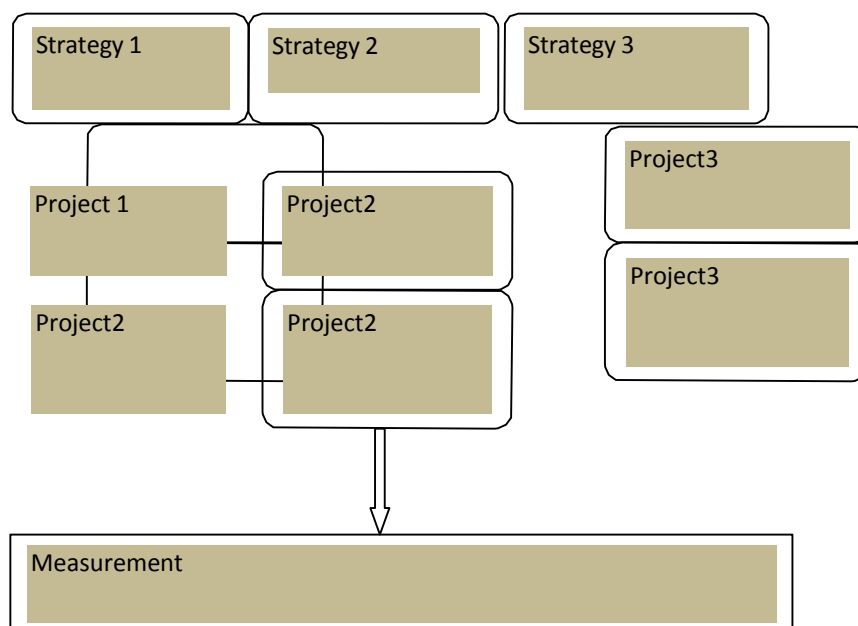
Every LED project or instrument has its own set of objectives. The impact of an LED project must

be measured against the specific objectives set for the project. Objective information about how well LED projects are performing will help municipalities to assess which strategies and projects are most successful.

Figure 3: illustrate different steps of Local Economic Development planning process



A Municipality must have a range of strategies aimed at meeting development objective. Some of these strategies will take the form of LED initiatives. A number of concrete projects will be established to implement each strategy.



Source: DPLG, 2003:103

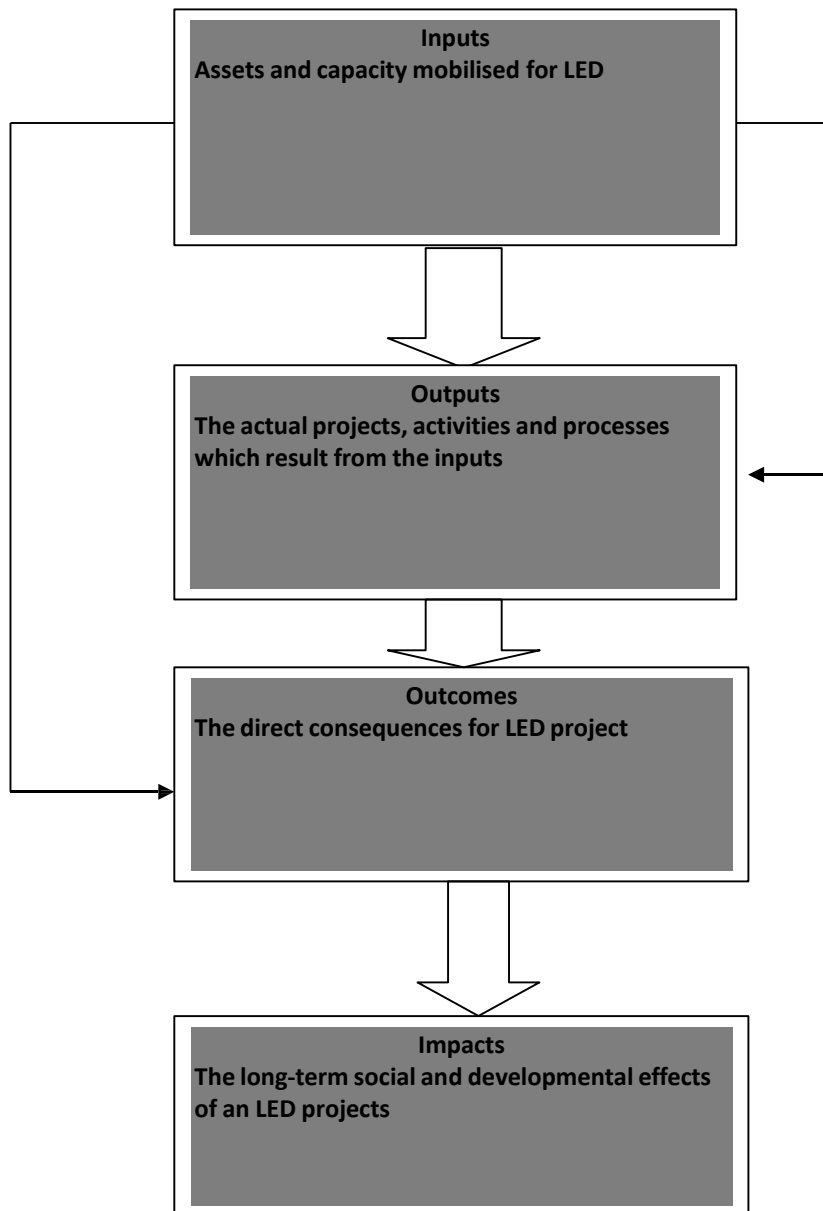
Every project will have its own specific aims and objectives. The success of the project should be measured against the extent to which the project has realised those aims plus objectives.

2.5.3 Inputs, outputs, outcomes and impacts

The results of LED projects can be measured on a number of levels. To permit accurate measurement, it is important to make a distinction between the inputs, outputs, outcomes and impacts of a LED programme or project (DPLG, 2000b:8). 'Inputs' are the resources and capacity which are mobilised to achieve LED goals. They can refer to a range of resources such as money, effort, time and personnel that are allocated to LED. 'Outputs' are specific activities, processes and projects that directly result from inputs. The 'Outcomes' refer to direct consequences or results that follow an activity, project or process. For example, a LED project 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 a community, measured over a long period of time (DPLG, 2003:104).

The relationship between inputs and outputs show in what way 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 (2003:1050), there are six types of indicators which are useful for measuring the results of LED projects - input, output, efficiency, outcome, impact and effectiveness indicators.

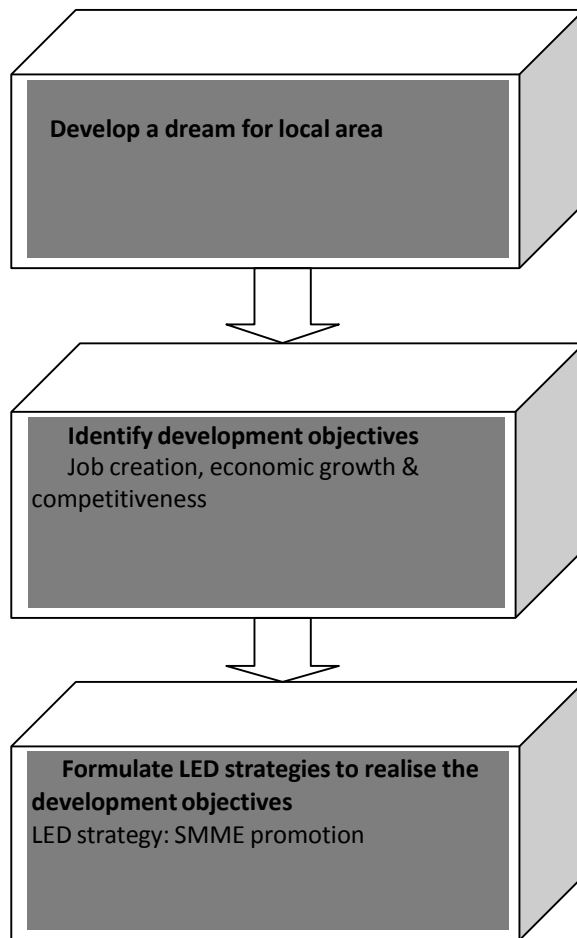
Figure 4: relationship between inputs and outputs/outcomes



Source: DPLG, 2000d: 10

The use of the contribution, 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 2.6).

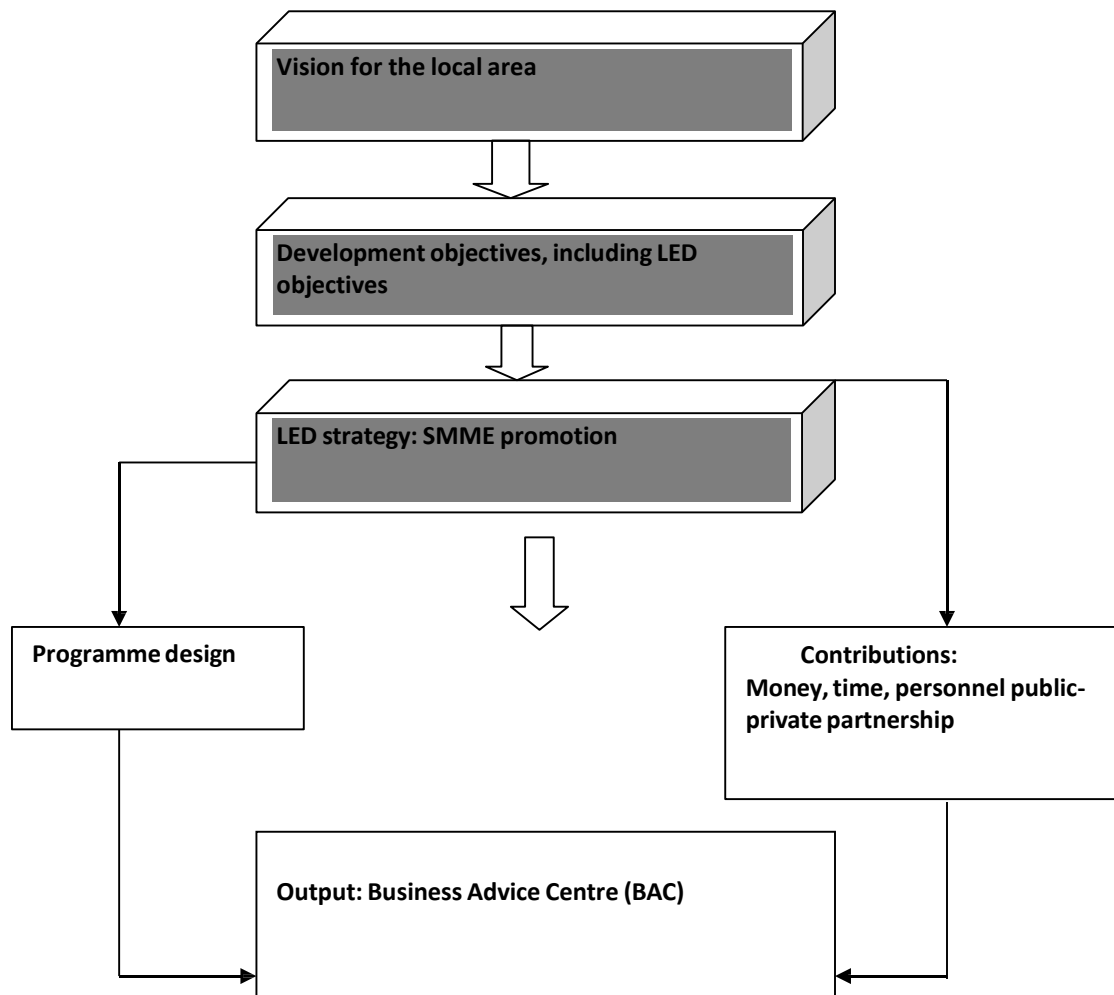
Figure 5: Vision, development objectives and LED strategies



Source: DPLG, 2003:108

The local authority initiates 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 2.7), it is decided that the establishment of BAC is the best instrument to promote SMMEs. 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.

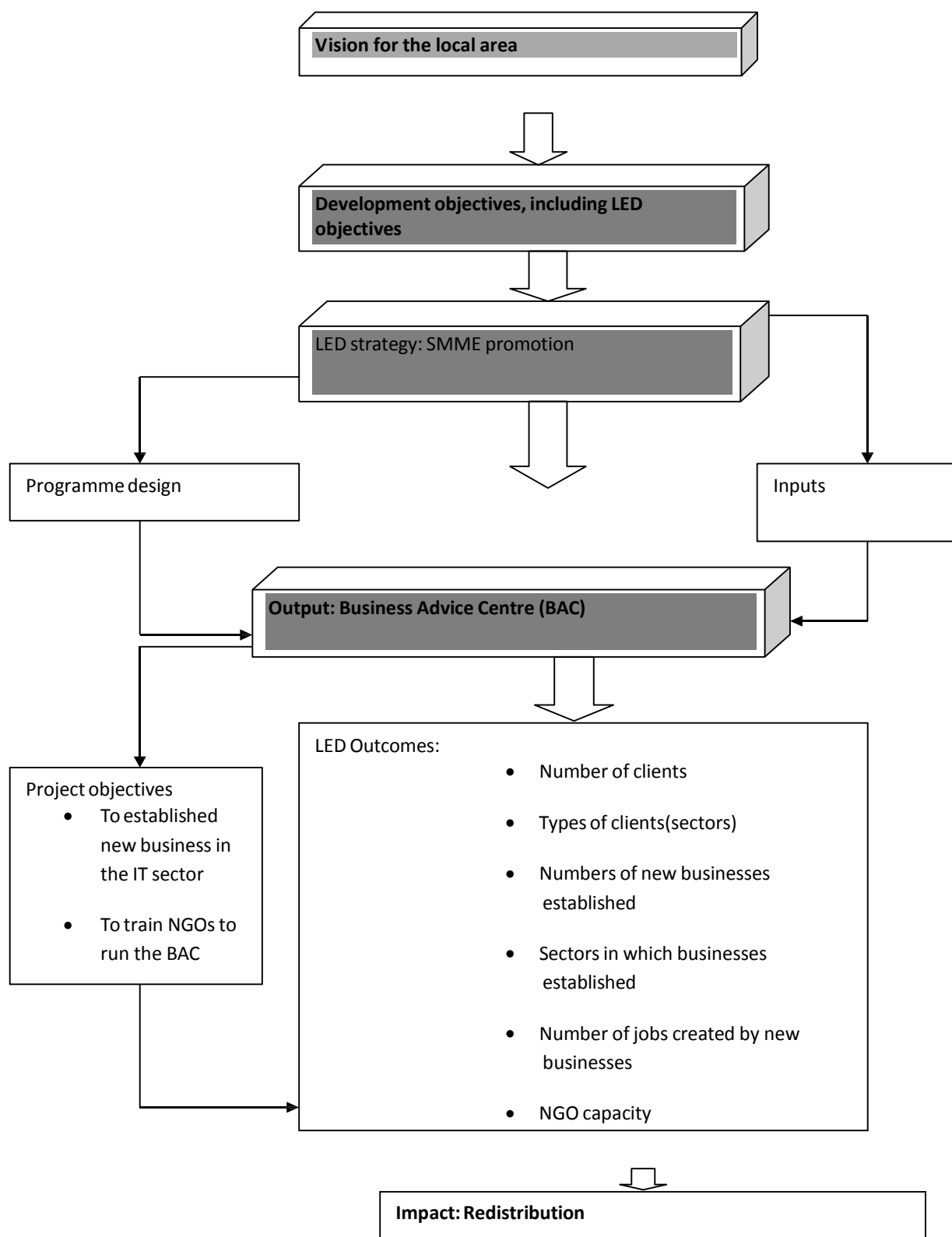
Figure 6: Local economic development programme and inputs/outputs



Source: DPLG, 2003:109

The local authority must then set clear objectives for the BAC. These objectives inform the development of outcome and impact indicators (see Figure 2.8).

Figure 7: Project objectives, LED outcomes and impact

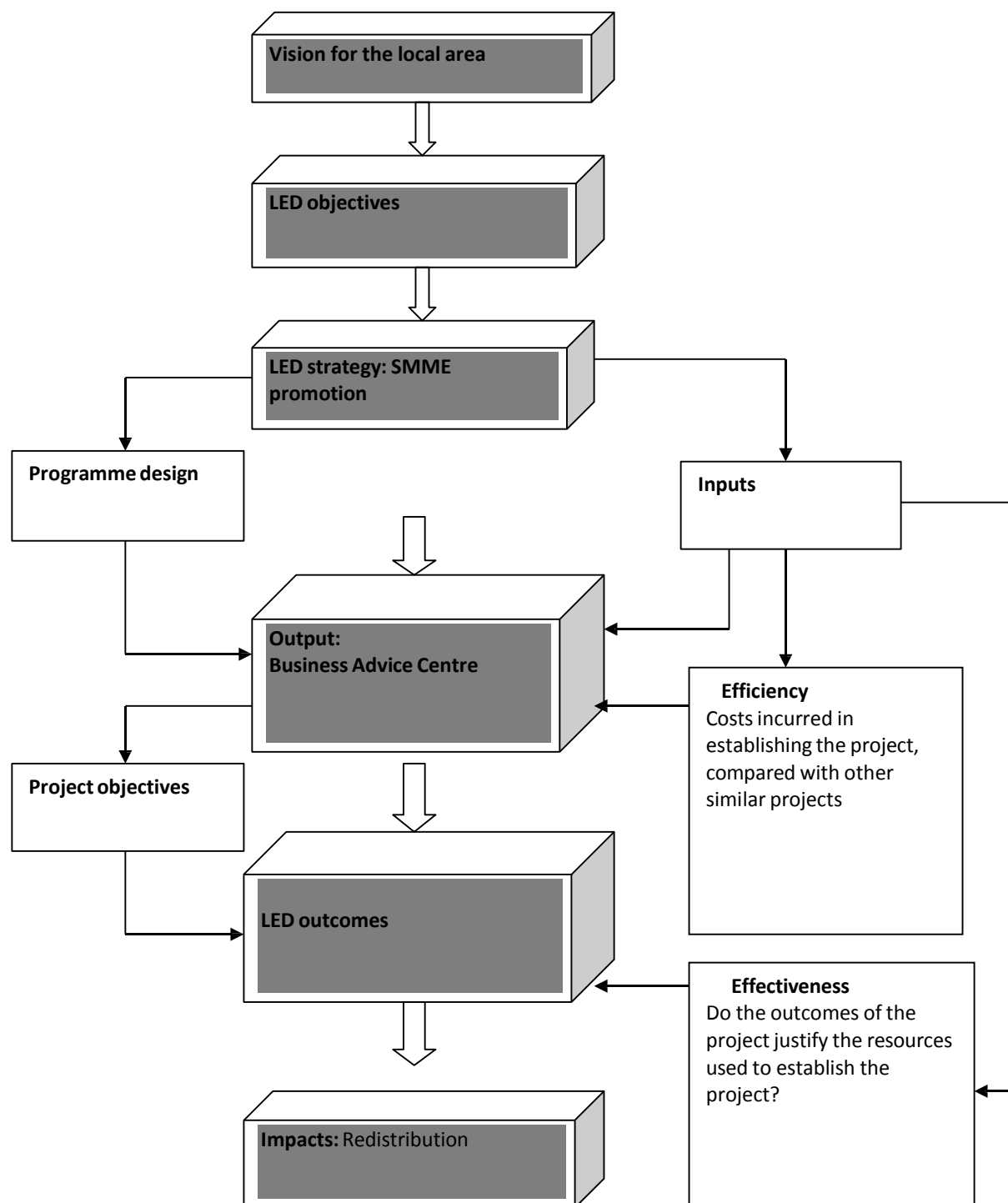


Expanding the 'inputs, outputs, outcomes and impact' framework, the local authority has now determined:

- which strategy to follow (SMME) to realise its 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 results (outcomes) of the BAC can be measured; and
- What the desirable long-term impact of the project is (DPLG, 2000d: 14).

The 'inputs, output, outcomes and impact' framework can also help the local council to assess how efficiently its 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 (Figure 2.9).

Figure 8: LED and efficiency/effectiveness



Source: DPLG, 2003:111

The DPLG also known as COGTA (2003:111), states that another valuable measurement methodology which can be used, together with the 'inputs, outputs, outcomes and impact' framework, is 'the concrete 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) further elaborates 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 refers to '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 are aimed at assessing the long-term social and developmental impact of the LED project.

2.6 ROLE PLAYERS IN LED

LED is a result of combined efforts from various stakeholders to ensure utilisation of local resources for the purposes of employment creation to alleviate poverty. The role of various stakeholders in LED will be discussed in detail below.

2.6.1 Public Sector

The public sector is referred to as the part of the state that deals with the production, delivery and allocation of goods and services by and for the government or its citizens. Section 40 (1) of the 1996 Constitution stipulates that, 'in the republic, government is constituted as national, provincial and local spheres of government which are distinctive, interdependent and interrelated'.

Accordingly, local government remains the core player in implementing LED. The task of municipalities includes the promotion and facilitation of LED programmes and this cannot be realised without the support of other government spheres. In order to address challenges related to the implementation of LED programmes, Buthelezi (2007:30), maintains that it is in the national interest that local government institutions, as the prime facilitators of LED, are capacitated and transformed to play a developmental role within the singular South African formation.

The private sector mentions to that part of the economy which operates for private profit and is not controlled by the state. Enterprises that are part of the state are part of the public sector; private, non-profit organizations are regarded as part of the voluntary sector. Private organizations and individuals work in collaboration with municipalities in a partnership to ensure that LED projects are success. From the support they get from municipalities they are able to pursue their own aims and objectives.

Vaidyanathan and Sundar (2011:24), provide the general objectives of the public sector enterprises as the following:

- to gain control of the commanding heights of the economy;
- to promote critical development in terms of social change and strategic value rather than primarily an considerations of profit; and
- to promote surpluses for the government to finance economic development.

The public sector major role is the economic development which will lead to job creation in the area through financial assistance from local government. Though the main purpose is profit but ultimately the needs of the poor will be catered for.

2.6.2 Community Based Organisations (CBOs)

Community Based Organisation (CBO) is an organisation that provides social services at local level. It is a non-profit organisation whose activities are based primarily on volunteer efforts. This means that CBOs rest heavily on voluntary contributions for labour, materials and financial support. Organised community organisations are also major stakeholders in LED execution. This role is stipulated in various pieces of legislation, including the Constitution. (Chechetto-Salles & Geyer, 2006:4). This CBO will play significant role in improving the level of services in the community. Abegunde (2009:236), concurs with the latter statement by CBO is seen as voluntarily, on-profit, on– governmental and highly localized or neighbourhood institutions whose membership is placed on equal level and whose main goal is the improvement of the social and economic well-being of every member. CBO is a simple institution that covers a relatively small area with local identity. Members are mainly concerned with the development problems of and development programme projects in their various areas. In essence community development is the essence of CBO.

2.6.3 Non-governmental Organisation (NGOs)

These organisations are increasingly being viewed as possible alternatives to government for addressing the needs of the population otherwise out of reach by official development programmes (Brown & Korten, 1989:1). NGOs have emerged as an influential force in the development process that alleviates the cost of institutional weaknesses which include administrative shortcomings and inability to carry out efficiently, essential development tasks such as providing social services or protecting the environment (World Bank, 1991:135).

The NGOs have the particular capacity to:

- fend for the poor and other groups not served by public or private sectors;
- ease the mobilisation of local resources and the establishment of private organisations to promote participatory development. NGOs are versatile and can easily identify and adapt to local needs and circumstances; provide basic services at low cost, and galvanise local resources and voluntarily labour; and
- find creative solutions to unique problems, and promote successful innovation in the public sector (World Bank;1991:136).

Van Rooy (2007:11), adds that the NGOs and partnerships are regarded by many governments and financing agencies as the cornerstone of modern rural development processes. The government programmes and government- funded organisations often play a critical role in getting community development initiatives off the ground and, in many instances, in sustaining these initiatives.

2.6.4 Development institutions

This refers to both International and National institutions and/or organisations whose aim is to contribute towards the eradication of poverty and underdevelopment. This contribution is in the form of granting funds to civil society organisations with a view to promote the development and advancement of local economies. Examples such as the World Bank, New Partnership for Africa's Development (NEPAD) and National Development Agency (NDA) are such international, regional

and national organisations, respectively.

According to Malefane and Khalo (2010:390), development institutions are set to respond to socioeconomic challenges, growing concern over economic growth and development, poverty and poor performance of municipal sector departments in economic development. Their economic mandate is founded on the premise that traditional municipal structures cannot optimally respond to socioeconomic in local communities. They are seen as activist vehicle en route for realising the vision of a democratic and developmental local government in which municipalities fulfil their constitutional obligation.

2.7 LED AND INSTITUTIONAL ARRANGEMENTS

2.7.1 Public LED units

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

- At the center of municipal administration. This usually means locating the unit in the office of the Municipal Manager. This 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 in the Municipal Manager's office drive typically be a small strategic unit, acting mainly as advocate and facilitator.
- Within a line department. A line department is a department responsible for a specific municipal service, for example, a department for water and sanitation or roads. A LED unit situated within a line department will usually play an operational rather than a facilitator 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 projects.

Alternative municipal institutional arrangements include the following (International Republican Institute & National Business Initiatives, 1998:49; DPLG, 2003:11):

- The appointment of an employee local economic development coordinator, ideally reporting to the Municipal Manager or to the executive structure of the Municipal council (the Supervisory Committee or Executive Mayor). This will enhance the coordinator's ability to effectively co-ordinate programmes across municipal departments.
- Appointment of a LED consultant. Municipalities could hire consultants to assist in designing LED programmes, or to advise on specific LED projects.
- Formation of a LED management team. This is a team of senior officials and councilors that meets 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 on the Council.

To reduce costs, smaller municipalities should also consider sharing LED coordinators. This might be managed as a direct agreement between two or more municipalities, or coordinated through a District Council.

Koma (2012:138) support this by saying local economic development units/forums/agencies

should have appropriate and sufficient powers, functions and resources to enable them to discharge their responsibilities effectively. The administrative capacity of municipalities should be properly developed and strengthened. The LED forum should be composed of all major stakeholders within the locality inclusive of business, economic, social and eco-friendly sectors. A long term and shared vision to create job opportunities and eradicate poverty should be realised by the forums. The staff of LED department/units and agencies should be a top priority for towns. The skewed skills levels of LED staff across municipalities should be addressed as a matter of urgency with a view to achieve LED policy objectives.

2.7.2 The 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 implementation of LED initiatives. A CDT comes into being when a person ('donor') hands over control of certain funds or assets to another party ('the trustee'), who must administer them aimed at the purpose of LED. Neither the donor, nor the trustee enters into arrangements for personal benefit (Case, 2001:78).

Community Development Trust, with less formal arrangements can be established. These will involve the establishment of a trust to channel and administer funds or other assets in implementing LED initiatives. These arrangements facilitate participation amongst a broader cross-section of the community (Nel & Goldman, 2006:97).

This CDT is good example to manage funds meant from the donor to the trustee. The LED projects will not suffer because the funds are in the safe and capable care.

2.7.3 Section 21 companies

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

A section 21 corporation is a non-profit company. In other words, a section 21 company may not distribute any profits to its members. A section 21 company formed for the purpose of implementing LED must therefore reinvest any profits 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 amalgamated as a company if the association meets the following requirements (DPLG, 2003:16):

- It is formed for a legal purpose.
- Its independent 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 form, but shall be used to further the objective. It must also state that if the company should close down, any assets of the association remaining after payment of its creditors will be transferred to another association or institution having a similar objective.

2.7.4 Corporations with other stakeholders

Partnerships between municipalities and businesses or community organisations can provide useful institutional vehicles for LED. Advantages help to secure a shared community vision as a basis for LED. Exxaro's community activities area directly linked to its strategy by ensuring the group's sustainability and protecting and building its reputation by fostering mutually beneficial relationships with local communities. The main objective is to ensure real sustainable development and growth in communities. An important Exxaro's approach is generating new non-mining economic opportunities within identified local communities, like for local BEE companies and SMEs owned by disadvantaged groups. It encourages volunteerism and participation in local economic development projects to create of a culture of social conscious employees (Exxaro Integrated Annual Report, 2010:139).

These partnerships may range from Partnerships role is to ensure large participation of all stakeholders including, the public, private and NGOs in bringing sustainable economic development. It. is defined in LED as collaboration between municipalities, the private sector, NGOs to hand over to work together on a project to chase common goals and in which the different partners bring complimentary resources, contribute to the design of the programme and share its risk and benefits(Hailemichael, 2014:8).

Towns 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 to boost local business confidence. Various municipal service partnerships can be entered into, in order to build the capacity of the municipality.

2.4.1 Choosing institutional arrangements

The choice of an appropriate programme-level institutional arrangement will be influenced by number of factors, the most significant of which include the following (DPLG, 2003:27):

- The nature of the part 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. This will guide the choice of institutional arrangements.

Table 2: The Direct and indirect roles of municipalities in LED

Direct characters of municipalities in LED	Indirect roles of municipalities
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.
Comparison and interpretation of economic intelligence. For example, conducting research and maintain databases and city indices.	Improvement of effective efficiency, for example, quicker processing of licensing applications.
Co-ordination of indigenous initiatives and other government LED programmes.	Facilitation of sustainable community projects.
Delivery of business infrastructure, particularly in previously disadvantaged areas.	Attraction of development funding for the locality.
Provision to SMMEs, including the facilitation of funding and training.	Dissemination of information on LED, in conjunction with DPLG, the South African Local Government Association (SALGA) and other stakeholders.
Development of incentives for inward investment.	

Source: DPLG (COGTA), 2003:29

There is wide range of possible LED projects. Not only are LED projects themselves diverse, but they are also implemented in diverse contexts. This makes it difficult to deliver

detailed guidelines towards how to choose an institutional arrangement for a LED project. The utmost appropriate institutional arrangement 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). Perhaps the most significant factor influencing the choice of institution is the nature of the LED strategies used

2.8 Conclusion

Local governments in South Africa have a legal developmental mandate to encourage them to plan and implement LED strategies. The LED has objectives and importance that will play a part in enhancing its implementation. The role players in LED include the Public sector, Community Based organisations, NGOs and development institutions. LED strategies are developmental and maintenance of services and infrastructure, retaining and expanding services form the local economy, community-based economic development, developing human capital, expanding public work programmes, industrial recruitment and marketing, plugging the leaks in the local economy and export promotion.

South African municipalities are compliant with LED policies, but the main challenges lie in their implementation. Municipalities in South Africa have also included local economic development Units, CDT, section 21 companies and partnerships with stakeholders for smooth local economic development implementation. Implementation in South Africa is starting to bear fruitful results as many municipalities are on the right track, as evidenced by many success stories.