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Investigation of Pro-Poor Local Economic Development in South Africa

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Research Partners:
Rhodes University
Khanya-African Institute for Community-Driven Development (Khanya-aicddd)
University of the Witwatersrand
University of KwaZulu-Natal
South African Local Government Association
Department of Provincial and Local Government
South African Cities Network
Local Government SETA
Mangaung Local Municipality

Rhodes University
Project Manager: Etienne Nel
Email: E.Nel@ru.ac.za
Tel: +27 (0)46 603 8319

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Etienne Nel

Key contacts:

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<tr>
<th>Organization</th>
<th>Contact</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rhodes University</td>
<td>Etienne Nel</td>
<td><a href="mailto:E.Nel@ru.ac.za">E.Nel@ru.ac.za</a></td>
</tr>
<tr>
<td>Khanya-aicdd</td>
<td>Ian Goldman</td>
<td><a href="mailto:goldman@khanya-aicdd.org">goldman@khanya-aicdd.org</a></td>
</tr>
<tr>
<td></td>
<td>Thandi Henson</td>
<td><a href="mailto:thandi@khanya-aicdd.org">thandi@khanya-aicdd.org</a></td>
</tr>
<tr>
<td>Wits University</td>
<td>Chris Rogerson</td>
<td><a href="mailto:RogersonC@GEOARC.wits.ac.za">RogersonC@GEOARC.wits.ac.za</a></td>
</tr>
<tr>
<td>Mangaung Municipality</td>
<td>Diane Abrahams</td>
<td><a href="mailto:diane@civic.mangaung.co.za">diane@civic.mangaung.co.za</a></td>
</tr>
<tr>
<td>LGSETA</td>
<td>Peter Gerstlauer</td>
<td><a href="mailto:PeterG@LGSETA.co.za">PeterG@LGSETA.co.za</a></td>
</tr>
<tr>
<td>dplg</td>
<td>Alistair Frey</td>
<td><a href="mailto:AlistairF@dplg.gov.za">AlistairF@dplg.gov.za</a></td>
</tr>
<tr>
<td>SALGA</td>
<td>Tebogo Moremi</td>
<td><a href="mailto:tmoremi@salga.org.za">tmoremi@salga.org.za</a></td>
</tr>
<tr>
<td>SACN</td>
<td>Seana Nkahlle</td>
<td><a href="mailto:seana@sacities.net">seana@sacities.net</a></td>
</tr>
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Glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ABC</td>
<td>Audit Bureau of Circulation</td>
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<td>AICDD</td>
<td>African Institute for Community-Driven Development</td>
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<td>ANC</td>
<td>African National Congress</td>
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<td>BEE</td>
<td>Black Economic Empowerment</td>
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<td>BNPP</td>
<td>World Bank-Netherlands Partnership Program</td>
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<td>DEAT</td>
<td>Department of Environmental Affairs and Tourism</td>
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<td>DM</td>
<td>District municipality</td>
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<td>DTI</td>
<td>Department of Trade and Industry</td>
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<td>DWAF</td>
<td>Department of Water Affairs and Forestry</td>
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<td>EDF</td>
<td>(eThekwini’s) Economic Development Framework</td>
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<td>EPWP</td>
<td>Extended Public Works Programme</td>
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<td>GEAR</td>
<td>Growth, Employment and Redistribution</td>
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<td>IDP</td>
<td>Integrated Development Plan</td>
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<td>IDZ</td>
<td>Industrial development zone</td>
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<td>LED</td>
<td>Local Economic Development</td>
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<td>LAEDF</td>
<td>(eThekwini’s) Local Area Economic Development Framework</td>
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<td>LGSETA</td>
<td>Local Government Sector Education and Training Authority</td>
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<td>MIG</td>
<td>Municipal Infrastructure Grant</td>
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<td>MoU</td>
<td>Memorandum of understanding</td>
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<td>R&amp;D</td>
<td>Research and development</td>
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<td>RDP</td>
<td>Reconstruction and Development Programme</td>
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<td>SA</td>
<td>South Africa</td>
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<td>SACN</td>
<td>SA Cities Network</td>
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<td>SALGA</td>
<td>South African Local Government Association</td>
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<td>SETA</td>
<td>Sector education and training authority</td>
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<td>SMME</td>
<td>Small, micro and medium sized enterprises</td>
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<td>ZCB</td>
<td>Zululand Chamber of Business</td>
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EXECUTIVE SUMMARY

1 Introduction

1.1 In order to promote economic development it is increasingly being recognised that microeconomic measures at the local level are needed as well as macroeconomic measures at the national level. The former are often collectively referred to as Local Economic Development (LED) and in the South prioritizing the needs of the poor must feature prominently in the design of LED interventions. South Africa is one country in Africa where there has been explicit attention paid to LED policy and practice and, given the government’s prioritization of the needs of the poor, it has the potential to serve as a learning laboratory with respect to the principles, policy and application of pro-poor LED. Hence the World Bank commissioned this particular study into Pro-poor LED in South Africa, with a specific focus on seeking to ascertain lessons which can be derived from the application of LED, primarily by local governments.

1.2 The study is the outcome of a grant to the World Bank by the Dutch Government for a knowledge-generation activity entitled “Evaluating and Disseminating Experiences in Local Economic Development” with emphasis on their relevance to poverty reduction and applicability to low income countries”. The project purpose was “to have developed an understanding of how pro-poor LED is interpreted and applied on the ground in South Africa, placing specific emphasis on pro-poor outcomes and mechanisms which can serve to realistically lay a basis to develop a monitoring and evaluation framework. The emphasis was on urban areas and what local governments can do in terms of acting as catalysts or as a key locus of intervention. Partners in the project included Rhodes University, the African Institute for Community-Driven Development (AICDD, formerly Khanya-managing rural change), University of the Witwatersrand, University of Kwazulu-Natal, and Mangaung Local Municipality1. The SA Cities Network, South African Local Government Association (SALGA), National Treasury, Local Government and Water Sector Training Authority (LGSETA) served on a national reference group.

1.3 In terms of the approach and methodology, “LED” was taken to include all activities which local governments and other stakeholders at local level engage in to enhance growth, incomes and livelihoods, specifically including that of poor people. We relied on how local authorities defined and identified their LED priorities and interventions. However a local economy may well also ‘develop’ as a result of a range of devolved governmental grants and private sector investments. The key question we sought to address is to establish the role that local governments can play/are playing to support pro-poor LED in their cities, towns and rural areas either directly or indirectly through pro-growth activities and/or in collaboration with other partners. The research process involved the following main elements:

(i) An overview of existing research (meta analysis) in relation to pro-poor LED;

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1 The Bloemfontein office of the HSRC was a partner, but due to other commitments had to withdraw.
(ii) An overview of the current legal and policy context in the country to identify current policy foci and support;

(iii) A survey of approaches to pro-poor LED in the largest municipalities (approximately 30 centres), with an emailed questionnaire following up with telephone interviews with key cities and towns (with a 67% return);

(iv) Eight case studies, building on existing research and data collection.

(v) An end of project workshop including the reference group and practitioners.

The eight case-studies chosen were selected on the basis of known LED achievements and the degree to which their analysis sheds light on both the definition and application of LED, with a particular focus on pro-poor dimensions and the degree to which achievements to date lend themselves to the development of monitoring and evaluation mechanisms.

1.4 The report has 4 parts

Part A  Introduction (Section 1)
Part B  Includes an overview of LED in South Africa, the policy background (section 2), planning for LED in SA (Section 3), and the status of LED research and emerging findings prior to this research (Section 4)
Part C  Covers the findings of the research, from the survey (Section 4) and from the case studies (Section 5)
Part D  Covers the emerging lessons and their implications (Section 6) and conclusions (Section 7).

Part B: Overview

2 Background to LED in South Africa

2.1 South Africa has the largest economy in Africa, but suffers from a highly dualistic economy, with a world class formal economy including a number of multinationals, while up to 40% of the population is unemployed who depend on welfare grants and the informal sector to survive. This duality is being characterised in South Africa as the formal (First) and informal (Second) economy and the Deputy President has been given responsibility for measures to promote the second economy. Meanwhile Government has a neo-liberal macro-economic agenda, and is seeking market-driven economic expansion and growth, facilitating market expansion, with local government having a key role to play in stimulating economic development through investment in infrastructure to ‘crowd in private investment and boost short-term economic performance’ (RSA, 1996b, p.7).

In planning for development in one of the most unequal societies in the world, the South African government is placing considerable emphasis on what it terms ‘developmental local government’, increasing the role of government agencies in promoting growth and development, thus entrenching an essentially pro-poor policy focus. The government argues that ‘the central responsibility of municipalities (is) to work together with local communities to find sustainable ways to meet their needs and improve the quality of their lives’ (RSA, 1998a, p.17).
2.2 Out of South Africa’s total population of 44.8 million in 2001, 58% are urbanised (approximately 26 million). Of the 26 million, in 2001 21.1 million lived in the 21 largest urban centres and of those 16.58 million lived in the 9 largest centres which constitute the SA Cities Network (SACN, 2004). As part of the local government amalgamation process conducted in 2000, non-metropolitan South African municipalities are composed of an urban centre or centres plus surrounding rural hinterland. Some of the cities are very dynamic and entrepreneurial in their LED activities, and there is an increasing realisation of the importance and advantages of large cities in terms of their economic location and activity.

2.3 Pro-poor development/LED is encouraged through a range of key policies and laws. Key within this arrangement and assignment of responsibilities are the 1994 Reconstruction and Development Programme, the 1998 Local Government White Paper and the 2000 Local Government Systems Act. These identify the key development role for municipalities; they assign developmental powers and enshrine obligations such as the need for participatory development and the need to prioritise the requirements of the most needy communities in planning.

2.4 The key basis for all legislation in the country is the national Constitution of the country (RSA, 1996a). In terms of local government affairs, the Constitution recognises them as a distinctive sphere of government and mandates them to `give priority to the basic needs of the community, and to promote the social and economic development of the community. The Municipal Structures Act (RSA, 1998b) makes provision for three categories of local government:

- Metropolitan Councils, i.e. the large conurbations with multiple business districts,
- Municipal Councils, i.e. non-metropolitan local councils, and
- District Councils which oversee groups of municipal councils in urban and rural areas.

The Local Government White Paper (1998) suggests that amongst others, local government is responsible for the achievement of local economic development, playing an important role in job creation and in boosting the local economy through the provision of business-friendly services, local procurement, investment promotion, support for small businesses and growth sectors. The duties and powers are based on the Constitution (RSA, 1996a) and are generally of a service type nature, but include the following LED-type foci, namely: tourism, planning, public works, infrastructure development and markets. The Municipal Systems Act (RSA, 2000a) indicates that municipalities are specifically required to involve communities in the affairs of the municipality, to provide services in a financially and sustainable manner and to `promote development in the municipality’.

2.5 Whilst a significant policy and legal basis for pro-poor LED has clearly been laid in South Africa, despite first being mooted in 1997 there is still no formally approved LED policy. The latest draft of that document is currently embargoed. The 2002 version had a defined pro-poor focus (it was called Refocusing Development on the Poor), and it is alleged that this did not meet with the full approval of market aligned decision-makers. The document identifies the following goals / objectives for local governments:
1. To establish a job-creating economic growth path;
2. To embark on sustainable rural development and urban renewal;

To bring the poor and disadvantaged to the centre of development. In order to achieve this, LED needs to be holistic and LED must be innovative, creative and redistributive.

In 2005 a new document was released entitled: Policy Guidelines for Implementing Local Economic Development in South Africa, which aligns LED with a range of government programmes as well as provincial strategies and local IDPs. LED is clearly seen as a key mechanism to help in closing the gap between the first and the second economies.

2.6 In addition to the laws and policies directly supporting and encouraging pro-poor LED, other instruments provide support for implementation. These include the Integrated Development Planning process which requires an economic and spatial development component, promotion of participation and appropriate institutional and funding mechanisms. Based on international experience, DPLG (2000b) recommends that local authorities consider implementing one or more of the following six strategies:

- Industrial recruitment and place-marketing;
- Small, medium and micro enterprise (SMME) promotion and support;
- Community economic development;
- Export promotion;
- Business retention and expansion; and
- Investment Attraction designed to alleviate poverty, support small business and expand business development (DPLG, 2000b).

A range of financing mechanisms have been established including a LED Fund, Municipal Infrastructure Grant, Integrated Sustainable Rural Development Programme and the Urban Renewal Programme.

2.7 In conclusion a sophisticated system has evolved which, de facto, is providing a key supportive base for pro-poor LED. Whilst the country lacks an embracing LED policy document and many of the above-mentioned interventions are not specifically named as ‘pro-poor’ strategies, what it does have in place are an impressive range of laws, policies and funding mechanisms which though perhaps not always totally successful in job creation etc., have created a very defined framework for pro-poor LED intervention and support. Key considerations in terms of what has been established are:

- the Constitutional sanction of local governments to play a key role as agents of economic and social development;
- the provision of fundamental policy support for community-based/pro-poor development in documents such as the RDP and the Local Government White Paper;
- the institution of a range of key laws which give substance to the principle of ‘developmental local government’ and which assign powers and responsibilities, many of which oblige local governments to prioritise the needs of the poorest in issues range from consultation and participation to infrastructural provision;
the requirement that all local government engage in integrated development planning of which LED is a core component;

the provision of local and central state financial support to poverty relief / infrastructural / empowerment projects.

3 Planning for LED IN South Africa

3.1 Under apartheid spatial planning, heavy emphasis was given to top-down regional policy interventions which were centred upon promoting industrial decentralization in the country’s peripheral Homelands or Bantustan regions (Rogerson, 1994). Local economic development planning was undeveloped in the apartheid era and confined largely to a scatter of small initiatives for place marketing designed to attract inward investment. In post-apartheid South Africa, however, LED planning has gained considerable prominence in development planning.

3.2 The mainstream of LED planning in South Africa continues to be dominated by market-led activities that are geared towards achieving sustainable high economic growth rates (Nel and Rogerson, 2005). Several variants of "place entrepreneurialism" can be identified with the most important relating to promoting localities as competitive spaces for production, consumption and information-processing activities (Rogerson, 2000). Currently, with the growth in significance of tourism as a new economic driver for the post-apartheid economy, there is considerable local activity and emphasis upon tourism-led LED planning across large cities, smaller localities and rural areas. The IDPs and broader restructuring plans of major centres highlight the issue of ‘positioning the city in the global economy’ (see Hall and Robbins, 2002; Nel et al, 2003).

3.3 ‘Refocusing Development on the Poor’ argued a case for promoting ‘pro-poor’ LED which would explicitly target low income communities and the marginalised as the policy focus of government policy. At least six “developmental” LED strategies are suggested for support, namely: community-based economic development; linkage; human capital development; infrastructure and municipal services; leak plugging in the local economy; and, retaining and expanding local economic activity. Three critical policy areas are those which relate to improving regulatory frameworks, municipal services delivery, and issues of employment creation through the stimulation of local economic activities.

Lastly, and potentially of considerable significance, is the re-design and re-launch in 2004 of the national government’s support framework for small business development. The final details of the re-styled Integrated Small Business Development Strategy are still to be released. Nevertheless, it is known that the new strategy accords recognition to the demonstrated importance of local level interventions for supporting the SMME economy (TIPS, 2004). In particular, the critical role of local governments in terms of the expansion of business infrastructure facilities, in the making of IDPs and in shaping local regulatory frameworks which directly affect the performance of small businesses, and especially of those working in the informal economy (Xaba et al, 2002) is now openly acknowledged.
4 South African research on LED and emerging findings

4.1 This section examines key research, debates and trends in applied LED in the country, and finally draws some conclusions from Part B on the background to LED. Since the democratic transition in 1994 there have been a growing number of research investigations that have examined aspects of the unfolding Local Economic Development policy and practice in South Africa. Although there are areas of overlap, the existing sets of studies fall into four major themes:

- Writings that debate the evolving development and national directions of LED policy and planning;
- Locality focused investigations of the LED experience and implementation in the country’s major urban centres and secondary cities;
- Locality focused investigations on the LED experience and implementation in the country’s small towns and rural areas;
- Thematic or sectoral investigations concerning the implementation of specific forms of LED.

4.2 In terms of the evolving development and national directions of LED policy and planning, from the early 1920s through to the beginnings of apartheid there has been evidence in a range of different South African localities of what has been termed ‘incipient LED’, where place entrepreneurialism generally was coincident with place marketing initiatives for inward investment. Between 1994 and 2000 there appeared several studies in which South Africa’s new policy discovery of the developmental role for locality was reviewed and the early post-apartheid experiences were recorded and debated. Within this first wave of writings the stress primarily was directed at the pro-growth axis of LED policy and intervention (Rogerson, 1999a) but there were a small number of studies which raised questions concerning the role of LED in poverty alleviation and in the development of the poorest areas of South African cities.

4.3 In terms of the locality focus for LED in cities, the evolving directions of LED in the country’s major cities – particularly Johannesburg and Durban – have been a major focus in South African LED writings over the last decade. From the first detailed case studies on LED in South Africa’s cities, the pro-growth or pro-business bias in municipal interventions was already clear. Since 2000 the country’s large cities have continued with a strong LED focus upon promoting competitiveness across various sectors and of re-positioning in the changing global economy (SACN, 2004). Notwithstanding the pro-growth bias of LED in South Africa’s large cities there is also an observed evolution of initiatives which would be viewed as embodying a pro-poor orientation in most centres. The use of sectoral targeting as a potential vehicle for pro-poor planning has been highlighted from Johannesburg evidence (Rogerson, 2003a). Several of the small types of pro-poor initiatives would fall into the category of ‘area targeted initiatives’ which are linked to inner city renewal programmes taking place in Durban (Khosa and Naidoo, 1998). Finally, in a rich critical analysis of the building of a developmental local government to fight poverty using Johannesburg as a case study, Parnell (2004) moves the focus from the small-scale level to the larger questions of mainstreaming a developmental agenda that will enhance the lives of the urban poor. Parnell (2004) highlights that the institutional
frameworks of city government in South Africa are poorly constructed relative to the need for the large-scale roll out of municipal initiatives to fight poverty.

4.4 As the relative proportion of the population classed as poor or very poor is highest in South Africa’s small towns and rural areas, it is perhaps not surprising that most locality-based writings on LED in small towns and rural areas necessarily encompass a focus which is oriented towards pro-poor interventions. In the majority of South African small towns and rural areas the most important local development issues are centred upon dealing with economic decline and of the problems of often severe poverty in a situation of limited capacity and limited resources. There have been a number of locality-focused case studies of small town or rural LED across South Africa. Within these small town and rural case studies a heavy onus of responsibility often is placed upon the actual residents of the locality or the initiative of community-based organizations in achieving local self-reliance (Gibb, 2004).

4.5 The most undeveloped aspect of South African research on LED relate to thematic or sectoral investigations. National level debates on evolving policy have been extensively documented and researched. In addition, there is a considerable volume of case study material which interrogates at locality level particular experiences of LED in specific spaces. By contrast only a relatively small number of thematic or sectoral research investigations so far have been undertaken of issues pertaining to the South African LED experience.

4.6 Despite the considerable thrust to give priority to LED in South African local government, there is still very fragmented and patchy delivery in programmes and projects. Some of the more obvious concerns include:

- differing views held between government departments as to whether LED should have a pro-poor or a pro-market focus;
- a legacy of support for unsustainable, low skilled community projects which has negatively impacted on perceptions of the efficacy of LED. Even in the case of flagship projects such as developing rural nodes, results are clearly do not always live up to expectations;
- there is only limited private sector involvement in poverty relief projects;
- the devolution of significant and real power to effect LED to local municipalities which often lack the skills and capacity to effect change. As local governments are meant to the key implementers, if support and skills are not in place, development backlogs are exacerbated, not addressed. This applies to councillors and officials and is a major constraint which government itself has recognised as needing attention;
- significant devolution has taken place without adequate funds to run LED offices, pay for training or to finance projects, creating what is locally known as an ‘unfunded mandate’;
- real economic growth is being noted in pro-market supported ventures e.g. convention centres, place marketing etc, the challenge is to try and ensure that there are genuine pro-poor employment and development spin-offs from such activities;
- LED is sometimes perceived as marginal to the mainstream basic services delivery mandate of local government;
municipalities often place much emphasis on improving growth and employment prospects in their planning documents but not integrating this into resource allocation and day to day activities.

The preceding has led to a situation referred to by Rogerson as one in which ‘the most distinguishing feature of South African Local Economic Development policy is the new emphasis on a strong pro-poor focus in rhetoric, albeit if not always in practice’ (Rogerson, 2000, p408). The statement needs to be reflected on as it crystallises an essential dichotomy between sophisticated pro-poor policy on the one hand and very real operational difficulties on the other and a tendency in many local governments to rely on pro-growth initiatives in which the private sector are more likely to participate.

Part C: Evidence from the research

5 National overview of application of Pro-Poor LED by the major Local Governments in South Africa

5.1 30 centres were contacted with a questionnaire with a 67% response rate (total of 20 responses). This survey is based on a series of core interviews undertaken with the LED Unit (or equivalent) in the local municipalities / metropoles selected. In all cases the views of the most senior person were sought. Budget constraints restricted the interview process to single interviews and it was not possible to contact other stakeholders in the respective municipalities.

5.2 In terms of the municipal economy:
- dominant sector - although a diverse range of sectors were rated as the primary ones, the most common dominant sectors appear to be manufacturing, community services (i.e. government employment), business and financial services and tourism, indicating the dominance of primary and secondary industry and government employment as opposed to the tertiary and quaternary sectors;
- employment - in terms of employment, the dominant sectors are manufacturing, community services, mining, agriculture and trade;
- decline - In 5 out of 15 cases mining was rated as the sector experiencing the greatest decline, manufacturing in 5 cases and agriculture/forestry for 4.

5.3 In terms of how economic development is organised:
- Perception of LED - Economic development is perceived very differently by the various municipalities ranging from building ‘a globally competitive region so that all communities can benefit from economic growth’ (eThekwini) to more modest goals, eg ‘poverty alleviation through job creation’ (Moqhaka/Kroonstad);
- The most common institutional arrangement is for municipalities to establish a dedicated LED Unit/Department, found in 10 of 18 responses. Twelve centres report having interdepartmental LED mechanisms;
- In all cases the municipalities have established linkages beyond the municipality as part of a process of working with a wider group of stakeholders in order to advance development within the municipality. 14 have formalised
partnerships, most commonly with business (8) and with educational authorities (3). Other links are with a City Improvement District, the Gauteng Economic Development Agency, communities, SMME Trust, foreign agencies, a range of government agencies/departments and a Development Centre.

5.4 In terms of their economic development focus:
- common themes included: job creation; skills development; making the city a world class city; sectoral development; investment attraction; inner city redevelopment; infrastructural development;
- Most local authorities (17) claim to have poverty-focused strategies as part of the foci of their LED units/Economic Development Departments including: provision of free/subsidized services in terms of an indigent policy (8 cases); social development (6); procurement policies (4); infrastructure provision (2); business development (2); job creation/training/public works (5); food packages/nutrition (2); housing policies (1); rural planning (1);
- Of the 18 local authorities responding to this question, 12 see no distinction between addressing poverty as distinct from promoting economic growth while 6 recognise one. This is an aspect which needs to be investigated in the case studies as economic growth per se is not sufficient to address poverty, notably where there is persistent and widespread inequality as is the case in South Africa;
- community participation in programmes would appear to be limited and contact seems to be at the level of information provision, discussion and seeking endorsement;
- main economic development strategies include: skills development (10 cases); SMME support (8); Job creation (5); Tourism (5); Marketing (2); Economic development / manufacturing support (3); Infrastructure and planning (3); Sector support (2); Environmental management (2); Services (2).
- there is a high degree of involvement with two government programmes with defined LED implications, namely the Urban Renewal Programme (9 cases) which targets support to poor areas within cities and the new Expanded Public Works Programme (EPWP) (5).

5.5 In relation to other key stakeholders involved in LED, the main involvement was business chambers (75% of cases). NGOs are active in LED in only four localities. Beyond this, there are 14 other institutions listed as being active in at least one locality. Examples include tertiary educational institutions, an SMME trust, Local Business Support Centres, provincial development agency, sector education and training authority (SETAs), Tourism Boards and a bank. Unfortunately budgetary constraints prevented interviews being undertaken with non-local government role-players and hence this assessment is solely based on the understanding of local municipal officials.

5.6 In terms of specific LED interventions:
- In all cases, a defined Economic Development Strategy has been adopted by the respective municipalities or is being developed, often as part of the Integrated Development Plan;
- In most cases (18) the local authorities claim that they were active in promoting the local business environment;
• Moves to **privatise** municipal services appear to be limited (7 cases), probably owing to strong union opposition;
• Twelve municipalities claim to have **grants/rebates** to attract new investors, while only 11 localities asserting that they had support in place for existing investors, with three saying that they were working on a support package;
• 18 municipalities provide **infrastructure**;
• Involvement in **industrial and commercial sites** is common (17 respondents);
• Working with other business organizations to **support SMMEs** is undertaken by 13 municipalities. Seventeen municipalities claim to be active in preferential procurement for SMMEs and in 13 cases SMME support centres/business incubators have been established or are in the process of being built. Support for the **informal sector** is undertaken by 15 municipalities, predominantly skills development incentives and the provision of infrastructure;
• Most municipalities (16) see themselves as providing defined support for business **sectors/ clusters**;
• **Support for the poorest** sections of the community is part of the economic interventions of 11 municipalities. Such intervention takes the form of skills training, local area support, housing support, advisory services, procurement and public works;
• 13 municipalities have **area-based support**, mainly for larger firms;
• 14 centres undertake some research or information activities, eg a database of economic trends, sector information and relevant information;
• Eleven municipalities provide support for **export and marketing**. Non-financial support for **inward investment** takes the form of information provision, lobbying of business, investment facilitation and technical support (13 municipalities)

5.7 **Operational funding** for reporting LED units ranged from R100 000 (Umhlatuze) to R48.5 million (Cape Town) in 2003-04, with R100 000 and R51.8 million budgeted for 2004-5. Overall, there is clear gap in financing of the operations of LED units between the smaller centres (which are generally less than R600 000 pa) and the larger ones (over R 6 million per annum). In terms of **capital funds** similar gaps were in evidence between larger and smaller centres. The range recorded was R75 000 in Thoyandou to R16 million in Ekurhuleni in 2003-04 and R49.2 million for Cape Town in 2004-05.

6 **Case Studies**

6.1 Eight case studies were undertaken, ranging from metros to smaller urban centres. Most cases studies focused on one or two LED interventions or approaches in the municipal area. The case studies were:

Metros: eThekwini (Durban), Cape Town, Johannesburg, Ekurhuleni (East Rand)

Secondary cities: Mangaung (Bloemfontein), Umhlatuze (Richards Bay)

Small towns: Indambe (Port Alfred), Ingwe (Creighton)

Metros

6.2 From an economic perspective **Johannesburg** is the most important city in sub-Saharan Africa. The municipal policy is overtly pro-growth in focus, albeit that it
clearly makes allowances for support measures which directly or indirectly will facilitate economic growth in the poorer sections of the community. In terms of policy development, Johannesburg probably has the most sophisticated policy framework in place of any city in South Africa. The case-study report makes the point that while the city has poorly developed mechanisms to respond to poverty, positive moves in this direction are now being made. The Johannesburg Fashion District initiative is detailed in the paper as an example of a catalytic project which has significantly pro-poor growth implications. The initiative has involved some 1000 clothing micro-manufacturers and has encouraged a focus on niche markets, out-sourcing and integration of migrant workers.

6.3 **Ekurhuleni** is reported to have the largest industrial concentration in Africa. However the manufacturing base in the area has been in decline since the 1980s, with a reported 100 000 jobs lost, raising the unemployment rate to approximately 40%. In contrast to Johannesburg’s explicitly pro-growth policy, LED policy in Ekurhuleni is distinctively pro-poor focus. However while the pro-poor arguments are clearly stated, including explicit targeting of linkage between first and second economies, the economic strategies are weakly developed and rely on assumed growth taking place. The case study highlights the need to identify key economic drivers on which to build a strategy.

6.4 **eThekwini** has a long-established track record in the area of economic development, starting in the 1980s and the metropole is recognised as one of the most efficient and effective in the country. While overall industrial growth has been slow and sectors such as textile and clothing have been negatively affected by cheap imports, general economic growth and job creation is taking place, particularly in the tertiary sector and in export-focused industries. Despite this, unemployment is growing as a result of the challenge of rapid urbanization. LED policy in the city has evolved through a series of key phases. The 1996 Green Paper on Economic Development focused on providing services to the poor, while the 2000 Long Term Development Framework adopted a linked three-fold focus on economic growth, skills development and meeting basic needs. Key pro-poor interventions are in areas such as small business support, community tourism, providing township business centres, markets and urban agriculture. Well known projects include the key Warwick Junction project and the Regeneration Fund. However in terms of funding only about 15-20% of the capital budget is allocated to pro-poor issues and there is a reliance on national government rather than local funds for pro-poor projects.

6.5 **Cape Town** is experiencing rapid population growth, combined with entrenched poverty and significant environmental challenges. There is significant growth in the tertiary sector, particularly in terms of business services and tourism. Manufacturing has been affected by its traditional reliance on textiles and clothing which are vulnerable to cheap foreign imports. Addressing poverty and ensuring sound environmental management are explicitly linked in this city and feature prominently in pro-poor interventions. Economic development policy emphasises issues such as service subsidies for the poor, local area implementation of community-based economic development, linking poverty reduction and growth, trying to address the multi-dimensional nature of poverty and the need to mainstream and institutionalise anti-poverty issues. The case study provides evidence of two explicit pro-poor interventions:
(i) **Community Based Waste Management System**, disposing of 20% of the city’s refuse, based on a partnership between the city, NGO, private business and the government. Services improved as a result, skills were imparted, small businesses supported and the local environments improved in a cost-effective manner. On the negative side, community expectations have not always been realised, and there is union opposition;

(ii) **Ukuvuku – Operation Firestart** - removing alien vegetation on Table Mountain using a public works approach and community contractors. Some 5000 ha. were cleared and 334 people employed. However the project suffered from the absence of an institutional base, high expenses incurred, poor planning and training and was not renewed.

**Secondary cities**

6.6 **Mangaung** (Bloemfontein) is a municipality including the secondary city of Bloemfontein and two other towns, located in the centre of the country. In terms of economic policy, economic growth has been prioritised by the municipality whilst the city’s IDP is based on the objective of achieving both poverty reduction and economic growth, for which it has clear targets. The informal economy of Mangaung, which accounts for some 50% of local jobs, was the focus of the Mangaung case study. There are a wide variety of types of informal business. Some informal businesses are large, with turnovers up to R90 000 per month. Some mechanisms to assist these are suggested.

6.7 The city of **Umhlatuze** is one of the country’s key ports and industrial nodes, and incorporates the primary core of Richards Bay as well as Empangeni. While the city has a strong pro-growth orientation, the District Municipality (DM) and the big firms are engaged in various support programmes which have clear pro-poor implications. Some interesting lessons include:

- Corporate interventions, individually and collectively can have a key impact on poor communities;
- Strong District Municipalities can play a significant role in seeking to address economic imbalances, even where there is a strong local municipality within the district2;
- a Joint Development Forum can be a useful intervention, which can lay a basis for a growth coalition.

**Smaller centres**

6.8 The **Ingwe** Municipality in the Midlands of KwaZulu-Natal Province is a small, largely rural municipality centred on the town of Creighton. The Municipality has prioritised addressing poverty in its IDP and identified an innovative range of mechanisms to achieve this – the most important being around tourism. The municipality is rated as one of the best performing in the country in terms of a

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2 Often where there is a strong local municipality within what may be a weaker district, eg Mangaung within Motheo District, there is a lot of competition between local and district, and the district’s role can be difficult.
national awards scheme. The tourism intervention has focused on reviving the local railway-line as a tourist attraction, driven by a partnership involving the municipality, mission, rail and tourism authorities and local interest groups. To date some 229 jobs have been created, mostly of a short-term nature, and a significant reorientation of the focus of the local economy is taking place. Some lessons include the importance of partnerships, effective marketing to draw in tourists and to market produce and the need for effective business research to establish the existence of a market.

6.9 **Ndlambe** is a small municipality lying on the south-eastern coast of the Eastern Cape Province including the towns of Bathurst, Port Alfred, Alexandria and several smaller centres. It is heavily reliant on commercial agriculture and tourism. The case of pro-poor LED is of particular interest in that sustainable pro-poor, community-based LED projects were established in the municipality using national LED Funds. The two key enterprises in this regard are a pineapple pulp processing factory and a brick-making works. In addition, there are a range of less successful business and farming undertakings which have had some impact and to which the municipality has provided informal support.

One example is the Umsombomvu Pineapple Pulping project, where people from Bathurst Township approached the municipality to help them buy a farm adjacent to the township on which a pineapple pulping factory had operated. Funds were sourced from the LED Fund and a viable commercially linked community enterprise now operates, which sells fruit pulp to juice manufacturers around the country. The lessons from Ndlambe include that informal/ad-hoc support, e.g. to urban farmers and to potential small business operators, can play a meaningful role in LED. It also shows that community-based projects can be competitive in the open market and can be supported by government/municipalities, provided there are adequate skills and market demand for the product.

**Part D: Lessons**

**7 Emerging lessons for Pro-Poor LED in South Africa**

7.1 Overall, the preliminary findings of this survey serve to confirm and reinforce a number of observed key features concerning the current ‘state of the art’ of LED policy and practice in urban areas of South Africa. Some key points overall are that:

- LED is unevenly developed and operationalised across the South African urban system;
- Major divides exist as a group between the largest, most well-resourced and capacitated municipalities and the smaller urban centres in terms of policy development, institutionalisation of LED and applied practice. This is even true for some of the larger secondary cities. However there are some exceptions to this general picture;
- The definition and understanding of LED exhibits considerable variation, a finding which reflects the absence of national LED guidelines, and the short time with which municipalities have been actively taking forward LED approaches;
• Related issues include the poor local-level definition of LED and associated challenges in determining objectives and targets. This also leads to differences between councils which hinders the scope for comparison.

Municipalities in South Africa recognise and acknowledge the key role that they can play in the economic development of their local areas – in terms of achieving both economic growth and poverty reduction, either in unison or as two separate interventions. There is considerable variation in the amount of resources and staff devoted to LED, the degree to which LED has moved beyond policy pronouncements and the results which have been achieved. Limited funds allocated, the absence of poverty reduction targets and, with the exception of Cape Town, the lack of detail of the impact of interventions suggest that LED is not yet as embedded in municipal practice as one would like to see. It is clear that it is still early days for many municipalities and for many centres policy is still being developed and concrete results appear to be limited. In parallel, the near-absence of the use and application of Monitoring and Evaluation methods is cause for concern.

7.2 Only 5 centres reported on impacts on growth in their local economy. The figures reflect all forms of growth and not just LED-related effects. In all cases, whilst the data is interesting, it masks national trends of capital intensification and hence what is often job loss not gain. Reported figures range from Ekurhuleni showing 1% growth p.a. between 1996-2003 to Johannesburg indicating 4.2% growth between 1996-2002.

7.3 Few of the municipalities appear to have poverty reduction targets in place. An exception is Mangaung which has both an economic growth and poverty reduction target, the latter to reduce from 40-35% the proportion of the population living in poverty. Several indicate that poverty is increasing which is very worrying, while there are examples of job creation, and specific project impacts (eg the Fashion District).

7.4 Almost all local authorities responding in the survey indicated that they had poverty-focused strategies as part of their LED Units or Economic Development Departments. Striking differences exist between the policy approaches adopted to economic development in the case study cities. Some of the most apparent differences are between the approach of Johannesburg which has a determined a vision for itself based on perceived World City status and Ekurhuleni and Ingwe which are overtly pro-poor in focus, prioritising interventions specifically designed to address the challenges of poverty and unemployment. Other centres, such as Mangaung, eThekwini and Cape Town, have determined more middle of the road approaches, which seek to address both issues of poverty and growth and the fundamental linkages between the two. Given the dual challenges faced by South African society of needing to both address chronic poverty, yet also to achieve economic growth and global competitiveness, from a policy perspective it would seem that the approach adopted by Mangaung, Cape Town and eThekwini may be the most appropriate.

7.5 A wide range of interventions to support LED are used in the sample towns and cities. However many individual municipalities appear to use a very limited range of interventions, with the metros generally having the most diverse range of
measures. The project range differs from one or two interventions in smaller centres such as Ndlambe to an impressive portfolio, such as the case in eThekwini. **Government support**, such as the LED Fund in Ndlambe, if managed correctly and targeted to economically viable projects can catalyse meaningful development on the ground. Public procurement, urban renewal, SMME programmes and public works are the most significant government programmes.

Mangaung and eThekwini have recognised that the majority of the population are engaged in the **informal economy** and have made attempts to provide appropriate support. There is also evidence that pro-poor **community-based initiatives** can help disadvantaged community members to effectively participate in the market economy if market linked, providing a viable product and operating in an economically effective fashion e.g. in Ndlambe and in Durban’s Warwick Junction.

7.6 Institutionally, a LED unit is used as the major vehicle for LED operations, while the capacity, staffing and resourcing of units is very variable. However the allocation of often only a single person to the unit and low budget commitments severely handicaps the capacity to bring about change on the ground. The compartmentalization of economic development also seems to be a significant problem, with limited buy-in from other line-function municipal departments which impedes the overall scale and impact of council LED policies and the seeming failure to link line-function interventions or national government-funded projects explicitly into LED e.g. housing construction and infrastructure. The varying size of units, the presence or absence of professional staffs and resource differences creates a very diverse profile in terms of what exists and also in terms of actual impact.

7.7 Smaller centres are only able to allocate a few hundred thousand Rand to LED Units (eg R100 000 in Umhlatuze), while the larger cities can budget millions (eg over R51 million budgeted for 2003-4 in Cape Town). This picture is replicated in terms of capital spend (eg R75 000 in Thoyandou and R49 million in Cape Town), as well as on operational budgets for operational structures such as business centres etc. However the case studies show that even where municipalities have limited resources, they can play a key role in promoting economic development.

7.8 Generally M&E is poorly developed. Cost and time considerations are generally advanced as explanations for this scenario. The absence of effective mechanisms to gauge success, ascertain impact and cost-effectiveness and by implication, to exercise a determining influence over future programmes is startling.

7.9 Some of the implications that emerge from this section are that:

- Development needs to be comprehensive in nature and poverty needs to be understood as a multi-dimensional phenomenon which cannot be simply understood as requiring only an income-based solution;
- Policy can explicitly target pro-poor development, either directly or indirectly, through the encouragement of appropriate market interventions;
- Poverty reduction interventions require explicit policy and strategy support and both policy and process need to be focused on together;
- Stability in policy and politics is critical in development;
- Planning needs to be effective and thorough, but an obsession with planning should not limit learning by doing and the undertaking of implementation.
8 Conclusions

8.1 There is widespread acknowledgement on the part of local governments regarding both their developmental responsibilities and the urgency of addressing poverty. Whilst many of the selected case-studies examined are genuinely interesting, practical and significant cases of pro-poor LED, it would however seem that in many instances across the country, results are patchy and often very little has been achieved on the ground. Reasons for limited success seem most obviously to be related to capacity and funding constraints, as well as issues such as poor partnership formation and the reality that many projects are not economically sustainable.

Government policy shifts and the devolution of authority has clearly assigned municipalities a development mandate. Over and above this a range of government support programmes, e.g. public works and urban renewal do influence the nature and direction of applied LED in the country. It can however be debated whether many local governments are actually in a position to assume such responsibility given the nature of the applied constraints which they face? In addition, lack of clarity over the nature and focus of LED need to be addressed at national level. One issue of note in this regard could be the need to specifically seek to respond to market failure.

In any assessment however it is important to acknowledge what has been achieved, often by officials operating with limited resources;

8.2 Almost without exception, municipalities recognize their developmental responsibilities in general and the need to address poverty specifically. However there seems to be a significant degree of ‘silo’ thinking in many municipal departments, who do not necessarily see the LED implications of their actions.

8.3 The case studies have not specifically investigated the impact of different stakeholders, as they have focused primarily on the role of municipalities. Most municipalities are initiating some form of partnerships, even if many are weak. Although there are forums or some mechanisms for public-private interaction in most places, there seem to be relatively few cases of direct collaboration in joint projects. The Umhlatuze case clearly shows that the private sector, either individually or collectively can have a significant developmental impact on both social and economic considerations. For community-based economic development to work, this requires participatory identification of strengths and opportunities at local level, and fostering of community energy and commitment to take forward their own development. This appears weak and top-down approaches seems much more common. Over and above the preceding it is apparent that reasons for establishing partnerships need to be more clearly articulated and the concept needs more explicit mention in IDPs.

8.4 Overall there is little evidence of impact on growth, although it is still early days in some municipalities. There is evidence of significant impacts on employment, eg in Cape Town, or the 1000 jobs created in Johannesburg’s Fashion District. Some of the jobs are temporary, and the long-term impact of these on livelihoods is not clear. In terms of broader issues such as the building of capacity, the results are
more varied – ranging from low impacts, such as Cape Town’s employment schemes, to sustainable micro-enterprise in Ndlambe.

8.5 The cost effectiveness of directly-funded LED activities was difficult to ascertain, with limited cost data, as well as impact data. This is an important area for further work, as it can help to guide policy, for example on the balance between high-cost investment in infrastructure, versus lower cost investment in SMME support. In parallel over and above cost considerations one also needs to bear in mind social gains and the long-term impacts of training, empowerment and exposure in association with principles of self-actualisation.

8.6 In terms of coherence in policy and practice, there are pro-poor statements in the policies of many municipalities, but this is often not translated into significant LED budgets, nor the actions of other municipal departments.

8.7 At this juncture it is rather difficult to be definitive about the emerging typologies of LED. However, the most obvious distinctions are between:

(i) The Metropolitan areas with their diverse range of activities, relatively large budgets and staff complements, and their engagement in what are often large-scale interventions with significant impacts, e.g. the Fashion District/Warwick Junction;
(ii) Secondary cities where the range of activities are narrower, but where there are reasonably adequate budgets and staff complements;
(iii) Small centres, which are impoverished in terms of resources and where LED activities are often most discernable at the level of the small project.

Another clear and important set of distinctions exist between the three most apparent LED approaches:

(i) Those in which pro-poor interventions are weaker or secondary to pro-growth or competitiveness enhancement (as revealed in the majority of the case-studies investigated);
(ii) Those in which pro-poor interventions are seen as the dominant LED focus;
(iii) Those in which there exists a local growth path which simultaneously achieves both pro-growth and pro-poor interventions.

8.8 M&E comes out consistently as weak, with the most that is achieved being the development of key performance indicators in a number of municipalities. Over and above implementing and refining M&E is the need to identify the minimum criteria required to assure success and sustainability.

8.9 LED can play an important role as part of a response mechanism to socio-economic change, as shown by the examples from places such as Johannesburg and Ndlambe. However, this presupposes that adequate resources, policy endorsement and political sanction are available and in place to respond to such change.
Overall, it is evident from the experience of urban South Africa – and especially of the country’s largest cities – that a bias in LED programming currently exists towards economic initiatives that target the building of globally competitive business environments, while pro-poor investment focuses on basic services (shelter, roads, water and sanitation). In terms of moving forward, the debate should seek to address the difficult question of how South African municipalities – collectively and/or individually – can achieve a growth path or trajectory which operates to achieve simultaneously the goals of enhanced competitiveness on the one hand and of poverty reduction on the other. Some recommendations can be made:

(i) It is essential that municipalities do not just conflate economic growth and poverty objectives. There is widespread international evidence that trickle-down of wealth is not significant, and specific activities are needed to promote pro-poor growth. Thus it is important to address growth of the formal First Economy, but also to target specifically the small-scale and informal Second Economy, and the case studies have indicated some means of doing so. Concentrating support for the poor on basic services will not create economic livelihoods, and may continue to foster a dependency on the state;

(ii) There is a need to –arrive at an acceptable series of definitions of just what is meant by key terms such as: LED, pro-poor LED, pro-growth LED and pro-poor growth / inclusive LED. Given the lack of consensus about these terms nationally and internationally, consensus is clearly needed;

(iii) A supportive policy environment is required, including: national/state laws and policy which clearly and specifically empower local authorities, define their powers and duties, encourage interaction outside of the public sector, provides adequate financial support and training and allow for external support/advice. Much of this is potentially available in South Africa;

(iv) However, having a policy in place does not guarantee that there will be pro-poor outcomes. There are real applied constraints, notably on implementation capacity which impact on the ability to implement change. Municipalities must be encouraged to devote realistic budgets and staff to LED Units, and LED services if results are to be attained. Pro-poor LED services and projects also need to be adequately financed. The current bias in favour of pro-growth economic activities and pro-poor spending on basic needs will, in many cases, not have significant pro-poor economic impacts. Developmentally interventions need to be accepted as part of all municipal functions in practice and policy. LED officials also need to conceptualise of the broader range of interventions which impact on poverty as being part of LED;

(v) It is critical that local governments initiate defined monitoring and evaluation programmes to gauge the success of their initiatives. This should be based on both financial criteria and social impact assessment. Initially there may need to be experimentation to develop ideal methodologies;

(vi) There is still far too much competition between levels of government including local and district municipalities, and between these municipalities and provinces. There is inadequate involvement of the private sector, with
severe implications in terms of duplication and lack of synergy. **Partnership** formation/growth coalitions need to be encouraged and the private sector in particular, where it exists in significant strength, needs to be encouraged to contribute more meaningfully to local development, either through corporate social responsibility or coalition formation. The private/community/NGO sectors all have key roles to play. They should be supported and encouraged to engage in collaborative and independent action; Creating and enabling environment in which businesses, especially small operators, can flourish is essential; Associated with this is the need to recognise the fundamental importance of the small- / informal sector economy and to support its development as far as is possible.

(vii) A clear case can be argued for a new LED Fund which targets support to economically sustainable services, as well as projects.

**Note:** This research investigation was finalized in April 2005 and as such does not reflect subsequent developments terms of policy and practise.