



STRATEGIC REVIEW OF LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA

**Final Report Submitted to Minister Sicelo Shiceka
(dplg)
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Christian M. Rogerson

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EXECUTIVE SUMMARY

This report is the result of a request made from the Minister of DPLG for the preparation of a strategic review of key challenges facing Local Economic Development (LED) in South Africa in order to offer directions as to future options for LED policy. The background to this request is that the DPLG and the AHI (Afrikaanse Handelsinstituut) are engaged in an ongoing dialogue and cooperation with regard to local governance in South Africa. Based on the most recent dialogue, the decision was taken to focus on LED because of an assessment that there is a need to move from disillusionment to reorientation with regard to LED. Overall, it was agreed that particularly the need for far greater private sector involvement and cross-sector partnership in LED should define the dialogue and cooperation between DPLG and AHI.

The report is structured into eight sections of material

- Section One sets the scene by situating the growing policy importance of LED in relation to globalization.
- Section Two examines international debates about the *meaning and significance* of LED strategies.
- Section Three turns to South Africa and seeks to review the current LED policies and frameworks and subsequently to map out a picture of key LED stakeholders in South Africa.
- Section Four moves the focus from policy to an historical overview and assessment of LED practice during the fifteen year period, 1994-2009.
- Section Five turns to discuss the critical importance of partnerships for LED and of different forms of partnerships.
- Section Six offers a deeper perspective on partnerships in South Africa by presenting key findings from a national survey which was conducted during March 2009 with 30 chambers of the AHI;
- In Section Seven, a total of 14 core strategic challenges facing LED in contemporary South Africa are reviewed and interrogated;
- In Section Eight, a summary of the report and key conclusions is provided.

The flow of the document is that the initial sections of the report present mainly definitional (Section 2) or background analytical and survey material (Sections 3-5). These provide the basis for linking to the original research findings on AHI (Section 6) and identification of strategic challenges (Section 7) which represents the essential core of this report.

The study is based upon the following sources:

- A desk top review of international and local academic research on LED supplemented by policy papers and analysis sourced from the DPLG, the dti, DBSA, IDC, SALGA and GTZ.

- Interviews and e-mail communication with key LED stakeholders in South Africa.
- The national survey of 30 AHI business chambers; and
- Input obtained from key LED stakeholders at a workshop convened on 19 March in Pretoria on lessons learnt in German Development Co-operation Support in LED where an earlier draft of the strategic challenges was presented.

In Section 2 the report provides clarification of international debates concerning the meaning and significance of LED. It is argued that LED approaches emerged in the context of the developmental challenges posed by globalization and as a challenge to traditional ‘top down’ approaches to development planning. Internationally, whilst there are different definitions of LED, there is a common strategic emphasis upon a defined territory, the need for participation and social dialogue, locally-owned or managed processes, and the mobilization of local resources for competitive advantage. Further, whilst LED has an economic focus at its heart, LED is targeted ultimately to attaining a sustainable development pattern, one which both accommodates and reconciles economic, social and environmental issues.

In Section 3 a brief overview was given of the policy environment and of the progress of LED in South Africa since 1994. In reviewing the lists of roles that various stakeholders define for themselves in relation to LED processes, it is observed that there is a striking degree of the *duplication of tasks* between different LED stakeholders. For the two major government departments involved in LED – namely DPLG and DTI – there is a considerable degree of overlap and thus an urgent need for greater coordination and integration. The active involvement of other stakeholders, such as DBSA or SALGA, once more introduces another layer of duplication of several of the tasks which are taken upon by DTI and DPLG.

In Section 4 the focus of discussion turned from issues of policy and of stakeholder responsibilities to questions of LED practice. The historical evolution of LED practice is chronicled, drawing attention to the disappointments associated with a project based approach to LED. In cities, however, an alternative LED practice has evolved and centred upon the building of ‘systemic competitiveness’. Through a variety of initiatives South Africa’s major cities are seeking to enhance their competitiveness variously as centres of production, as centres of consumption or as centers for service-based, information-processing or knowledge-based activities. What exists in the landscape of LED practice is a spatially differentiated picture. In particular, sharp contrasts exist in LED practice between large cities with their focus on competitiveness, secondary cities with a focus on economic readjustment and LED practice in small towns which is limited or laggard. It is argued that these geographically differentiated practices in LED increasingly are contributing to widening spatial inequalities because of the impact of LED practice in large cities.

In Section 5 attention turns to analyse the role of partnerships in LED. It is argued that the building of partnerships represents an essential aspect of successful LED

practice and that there were a host of benefits surrounding the adoption of partnerships. Although different forms of partnerships can be discerned, the potential benefits of the less formalized Cross-Sector Partnerships are highlighted. Examples of several different kinds of partnership are provided. Overall, it is concluded that there exists no magic formula for establishing and maintaining successful partnerships. Key ingredients of successful partnerships, however, relate to the building of trust and dialogue between LED partners. Currently, considerable optimism surrounds partnerships in LED with some analysts concluding that given a commitment from both public and private sectors, that South Africa potentially could lead the world in cross-sector partnering for LED and reap enormous accompanying development benefits.

In Section 6 the core findings were presented of a survey undertaken during March 2009 with 30 AHI Chambers across South Africa. The results of the AHI study disclose a number of issues that need to be addressed in terms of moving forward with the notion of LED partnerships. These relate to the building of trust and of social capital. The survey pointed to the existence of considerable mistrust between the private sector chambers and local government. One signal of opportunity was that the survey found a marked improvement in relationships over the last 12 months between councils and Chambers. A core issue that was highlighted for partnering between Chambers and with Council is that concerning the improvement of the local business environment, including through the cutting of red tape. In order to realise the potential for LED partnership the survey demonstrated a need to foster improved mutual understanding and trust between the potential partners.

In Section 7, a series of fourteen key strategic challenges that face the future development of LED in South Africa over the next decade have been isolated. These challenges pertain, *inter alia*, to:

- The imperative for national government to provide greater clarity as to the meaning of LED, especially to guide LED activities and planning in small town and poorer municipalities;
- The need for greater integration and closer cooperation between both LED stakeholders and sector departments involved in implementing LED;
- The appropriate scaling of LED;
- Re-invigorating the role of provincial governments in LED;
- Closing the gap in LED practice between that in large cities on the one hand and in small towns and poorer municipalities on the other hand;
- The need to disseminate 'good practice' in LED;
- The significance of improving the profile of LED and for greater professionalisation of LED;
- The imperative to maximising the potential for LED partnerships between private and public sector;
- The vital importance of building LED networks and of sustainable knowledge platforms as a means to enhance high level systemic learning;

- **The capacity challenge of training staff and of careers in LED;**
- **Building an effective private sector business development services sector to enhance local competitiveness through benchmarking and the upgrading of clusters;**
- **Addressing the financing challenges of LED, especially for less well-resourced municipalities outside of the major cities;**
- **Improving economic data for understanding local economies, identifying competitiveness and for enhanced LED planning; and,**
- **Appropriately addressing the needs of the ‘second economy’.**

Throughout the report a number of proposals or recommendations are highlighted either implicitly or explicitly for taking forward LED over the next decade. The major proposals as outlined below link to the identified key strategic challenges as outlined in Section 7.

- **It is proposed that national government take the lead in making clear the balance between a competitive and welfare focus for LED. A clear message must be transmitted on the meaning of LED in order to guide the activities and planning in especially small towns and less well-resourced municipalities.**
- **It is proposed that a process of cooperation and coordination take place amongst key LED stakeholders – DPLG, the dti, DBSA, IDC, SALGA – in order to define a set of complementary roles and responsibilities in LED and to avoid the duplication of tasks. In addition, there is a need to revive and re-energise the National Joint Programme of Action for LED in order to support sectoral integration for maximising LED impacts.**
- **It is proposed that DPLG and the dti jointly undertake a review of the most appropriate scale for ‘doing’ LED and improve the existing levels of communication between local, district and provincial authorities.**
- **It is proposed that the existing Guidelines relating to the preparation of Provincial Growth and Development Strategies be reviewed and updated so that the PGDS should be an iterative process with, on the one hand, credible PGDSs providing inspiration to local and district municipalities and on the other hand, that PGDSs be informed by more credible local and district LED plans.**
- **It is proposed that the DPLG reconsider its current ‘one-size-fits-all’ thinking in terms of LED practice and instead accept the need for a more geographically differentiated approach to LED which might acknowledge that not all municipalities are in a position to undertake LED. In closing the gap between the systemic competitiveness approach driven in large cities and LED activities in small towns or poorer municipalities, one useful step would be to promote greater interaction and sharing of ideas between LED officials such as to encourage smaller municipalities to approach and prioritise LED in a more effective manner. Further, a critical monitoring of the role of LEDAs as a potential vehicle for facilitating LED in areas facing huge**

challenges of high levels of unemployment and poverty needs to be undertaken.

- It is proposed that key LED stakeholders be encouraged to assume an advocacy role for the dissemination of ‘good practice’ for enhanced competitiveness in LED. Among key elements of good practice that can be highlighted from local (and international) experience are a shift in the role of local government from intervention to enablement; an increased focus on ‘soft’ infrastructure and role of enabling technologies rather than traditional hard infrastructure; the importance of clusters to support competitiveness; a focus upon improving locational advantage; and, a shift towards market-based support structures.
- It is proposed that in order to achieve greater professionalization of LED that awareness be raised of the importance of LED for local governments. Local governments must be made aware that LED should move from the backburner to assume a central position in the development agenda of localities. In so doing, awareness needs to be heightened of understanding LED as a cross-cutting issue.
- It is proposed that in order to build the ‘soft factors’ of cooperation – trust and social capital - which are essential for successful LED partnerships between private and public sectors, that ‘quick wins’ be sought through promoting vigorously the need to improve local business environments and the reduction of red tape. A process of addressing the widespread mistrust between public sector and private sector can be enhanced through DPLG energetically driving the enhancement of local business environments through local regulatory reforms.
- It is proposed that the importance of building LED Networks and of sustainable knowledge platforms be recognised as contributing further to enhance a systemic approach towards high level capacity in LED. International donors can be encouraged to continue to play a crucial supportive role in the support and partial funding of these networks and knowledge platforms.
- It is proposed that the existing high levels of support and priority which is attached to training for LED officials and the development of capacity in LED be retained and strengthened in order that local government officials be capable enough to negotiate and strategise with the private sector around common interests. Further support is required also for the building of a national network of appropriate trainers for roll out and implementation of the LED Qualifications Framework.
- It is proposed that national government recognize the role and significance of building an effective business service sector designed to assist enterprises to attain necessary competitiveness. This will require recognition, support and appropriate reward for the significant role played by the business service sector in delivering the sorts of direct interventions to raise the competitiveness levels of enterprises in industry or tourism that government requires but is unable to provide. Another linked issue is to support the

development of service markets for the provision of Business Development Services in order to ‘make markets work for the poor’ especially in small towns and rural areas.

- It is proposed that a critical review be undertaken of the current state of financing for LED in South Africa with due consideration of the conditionalities attached to current grants and to whether current funding frameworks are aligned with national spatial development objectives and for achieving the economic revitalisation of localities and regions.
- It is proposed that a national review be undertaken of required data for local economic planning and of roles and responsibilities of local, provincial and national government in achieving a radical improvement in the existing state of weak or non-existent local level economic data.
- It is proposed that national government review and prepare guidelines for dealing with the informal economy and other associated strategies that fall outside ‘conventional’ national planning frameworks and paradigms. Although it is important to ensure that LED has a primary economic focus it is essential also that good practice be developed and disseminated around ‘the second economy’ with due acknowledgement of the fact that the fortunes of the ‘second economy’ are not separate from but are woven inextricably with that of the ‘first economy’.

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1. INTRODUCTION

Globalisation is a vital driver of changing planning approaches towards local and regional development (Christensen and van der Ree 2008; Rodriguez-Pose, 2008). The ILO (2006, p. 2) asserts that local economies are affected more than ever before “by policies and processes formed at the supranational level, such as market liberalisation, expanding global production systems and the changing terms of trade”. One outcome of accelerating globalization is to expose “even the most remote spaces to competition and forcing firms, localities and regions to react and adjust to the new economic conditions” (Pike et al. 2006: 4). In the re-shaped terrain of development planning, local economic development (LED) has emerged as a vital new planning focus particularly in the context of pervasive trends towards decentralization – the deliberate and planned transfer of resources away from central state institutions – and of shifting structures of government and governance (Rodriguez-Pose and Tijmstra, 2007; Christensen and van der Ree, 2008).

The rising importance of LED across sub-Saharan Africa is signalled by the activities of the United Cities and Local Governments of Africa (UCLGA) (Swinburn and Yatta 2006a, 2006b; Swinburn et al 2007). The UCLGA is the united voice and representative of local government in Africa, an association of local governments, individuals and entities interested in African local government. As part of UCLGA’s mission of ‘Building African Unity from within and Driving Development through the Grass Roots’, LED is identified as one of six key priority areas for action for the period 2006-2015 (Swinburn et al. 2007). In isolating LED as a priority for urban Africa, Swinburn and Yatta (2006a) recognize that national level macro-economic policies no longer are sufficient for attaining sustainable broad-based economic growth in Africa. Furthermore, traditional sectoral supply-side development strategies are not achieving hoped for results as globalization diminishes the powers of the nation state in Africa and correspondingly underlines both the role of localities and of wider city-regions as drivers of national growth (Swinburn and Yatta 2006a).

The South African case is usually highlighted as exceptional within Africa for the extensive devolution and decentralization of powers that has taken place (Nel and Rogerson, 2005). Certainly, within Africa, planning for LED in South Africa is the most advanced and longest established (Nel, 2007). Since the democratic transition, LED has been elevated from isolated local development intervention, mainly in cities, to an obligatory mandate for all local authorities in terms of the national constitution (Nel and Rogerson, 2005). It is against this backdrop of the rising global importance of LED and more especially its significance in sub-Saharan Africa that this report offers a strategic review on the current status and challenges of LED in South Africa.

The body of this report is organized into seven further sections of material

- **The report opens by interrogating the international debates about the *meaning and significance* of LED strategies.**
- **Section Three turns to South Africa and seeks to review the current LED policies, frameworks and guidelines and to map out a picture of key LED stakeholders in South Africa.**
- **Section Four moves the focus from policy to an historical overview and assessment of the practice of LED during the period 1994-2009.**
- **Section Five turns to discuss the critical importance of partnerships for LED and of different forms of partnerships.**
- **Section Six offers a further perspective on partnerships in South Africa by providing key findings of a national survey which was conducted during March 2009 with 30 chambers of the AHI (Afrikaanse Handelsinstituut);**
- **In Section Seven, the core strategic challenges facing LED in contemporary South Africa are reviewed and interrogated;**
- **A summary of the report and especially of the major strategic challenges identified for LED is provided in Section Eight.**

The flow of the document is that the initial sections of the report present mainly definitional (Section 2) or background material (Sections 3-5). These provide the basis for linking to the original survey material (Section 6) and identification of strategic challenges (Section 7) which represents the essential core as well as effective conclusion of this report.

The study is based upon the following sources:

- **Desk top review of international and local academic research on LED supplemented by policy papers and analysis sourced from the DPLG, the dti, DBSA, IDC, SALGA and GTZ.**
- **Interviews and e-mail communication with key LED stakeholders in South Africa.**
- **The national survey of 30 AHI business chambers; and**
- **Input obtained from key LED stakeholders at a workshop convened on 19 March in Pretoria on lessons learnt in German Development Co-operation Support in LED where an earlier draft of the strategic challenges was presented.**

2. THE MEANING AND SIGNIFICANCE OF LED

Although in South Africa it can be argued that concepts and ideas about LED are “fairly new” (Van der Heijden, 2008, p. 4), there is a long-established conceptual understanding of LED as reflected in the international experience. This section analyses the meaning and significance of LED particularly in the context of a globalized world.

Globalisation and Changing Approaches to Development Planning

It is observed that one of the major features of globalisation “is that markets have become more pervasive and are affecting countries simultaneously across the world” (Christensen and van der Ree, 2008, p. 2). The ILO argues that currently local economies are affected more than ever before “by policies and processes formed at the supranational level, such as market liberalisation, expanding global production systems and the changing terms of trade” (ILO, 2006, p. 2). Overall, therefore, the advance of globalisation accords LED strategies “a bigger role to play in international development” (Rodriguez-Pose, 2008, p. 24). In particular, LED “offers a means to counteract or take advantages of the forces of globalisation by maximising local potentials”(ILO, 2006, p. 2). Moreover, amidst current circumstances of global economic turmoil, localities are now compelled to find new solutions to support local competitiveness as well as to create inclusive development (ILO, 2008). For some observers, the key contemporary challenge facing all of LED is “how to make the most of local resources in a way that improves returns from global markets” (Christensen and van der Ree, 2008, p. 2).

Table 1: Main Differences between Traditional Top-down Development Policies and Bottom-up LED approaches (after Rodriguez-Pose, 2001).

Traditional development policies	Local economic development
1. Top-down approach in which decisions about the areas where intervention is needed are taken in the centre	1. Promotion of development in all territories with the initiative often coming from below
2. Managed by the central administration	2. Decentralized, vertical cooperation between different tiers of government and horizontal cooperation between public and private bodies
3. Sectoral approach to development	3. Territorial approach to development (locality, <i>milieu</i>)
4. Development of large industrial projects to stimulate other economic activity	4. Maximising the development potential of each are to stimulate a progressive adjustment of the local economic system to the changing economic environment
5. Financial support, incentives and subsidies as the main factor for attracting economic activity	5. Provision of key conditions for the development of economic activity

The developmental challenges posed by globalization have precipitated a serious re-thinking of the validity of former approaches to development planning. The major

differences between LED and traditional top-down approaches are summarised in Table 1 and relate to five domains (Rodriguez-Pose, 2001).

- *First*, whereas in traditional top-down approaches the decision on where to implement development strategies is taken by central government planners and developers, with little or no involvement of local actors, LED practices favour the promotion of development in all territories by using the economic potential and the competitive advantage of every space. The initiative to launch the development strategy is taken locally or with strong local support.
- *Second*, as a result of where and how the decisions are taken, traditional policies have been generally designed, managed, and implemented by ministries or central government agencies. The involvement of local actors in LED strategies implies, in contrast, a much greater degree of vertical and horizontal coordination of all the actors involved. Vertical coordination entails the synchronization of local, regional, national and supranational or international institutions. Horizontal coordination comprises local public and private actors concerned with development issues (Table 1).
- *Third*, is the approach to ‘doing’ development. Traditional policies have tended to adopt a sectoral approach. The promotion of specific industrial sectors that contribute to generate economic dynamism has been one of the main objectives of these policies. By contrast, LED uses a territorial approach as a means of achieving economic development. The diagnosis of the economic, social, and institutional conditions of every territory and the identification of the local economic potential are the foundations upon which a local development strategy is constructed.
- *Four*, closely allied to the sectoral approach of most traditional development policies is the development of large industrial projects that were expected to promote additional economic activity and generate the networks and value chains needed in order to achieve sustainable development. The problems of this type of practice encouraged LED practitioners to identify and use the economic development potential of each area and to stimulate the progressive adjustment of the local economic system to changing economic conditions (Rodriguez-Pose, 2001).
- Finally both approaches are set apart by their way of attracting economic activity. While traditional approaches rely on often national government supported financial support, incentive packages and subsidies in order to attract and maintain economic activity, LED tends often to shun such activities and concentrates on the improvement of the basic conditions in the locality for the development and attraction of further economic activity (Rodriguez-Pose, 2001).

In a globalized world Rodriguez-Pose (2001, pp. 11-12) identifies numerous advantages related to the adoption of LED strategies as compared to traditional development programmes. The advantages are broken down between economic and social advantages.

The *social* advantages are that:

- LED strategies empower local societies and generate local dialogue. Until recently people living in many areas of the developing world have had little say or control over economic activity taking place in their territory and now are beginning to adopt a more proactive stance with respect to their own future.
- LED strategies should assist in making local institutions more transparent and accountable thus contributing to the development of local civil society.

The *economic* advantages of the approach of LED are the most significant:

- As LED strategies seek to embed economic activity in a territory and make economic activity dependent on the specific economic conditions and comparative advantages of that place, they generate sustainable employment in enterprises more capable to withstand changes in the global economic environment.
- As a result of the involvement of local stakeholders and the rooting of economic activity in a territory, LED strategies can also contribute towards a general improvement in the quality of jobs or in other words, towards the ILO (2008) goal of ‘decent work’.

Contested Meanings of LED

As pointed out by several observers, there are numerous definitions of ‘local economic development’. For the US scholar Timothy Bartik, LED represents increases in a “local economy’s capacity to create wealth for local residents” (Bartik, 2003, p. 1). In the African context Helmsing and Egziabher (2005, p. 1) consider LED to be “a process in which partnerships between local governments, NGOs, community-based groups and the private sector are established to manage existing resources, to create jobs and stimulate the economy of a well-defined territory”. Moreover, LED initiatives “mobilize actors, organizations and resources, develop new institutions and local systems through dialogue and strategic actions” (Helmsing and Egziabher, 2005, p. 1).

The World Bank considers that the activity of LED is concerned with “local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community” (World Bank, 2002). For other analysts, it is argued that in the absence of a clearly defined theoretical model “LED strategies tend to resort to the basic features of the approach to specify their content” (Rodriguez-Pose, 2001, p. 8). The ILO distinguishes four core features to characterize LED strategies:

- The need for participation and social dialogue;
- They are anchored on territory
- Entail mobilization of local resources and competitive advantages; and

- Are locally-owned and managed.

These characteristics are brought together in the ILO definition that LED is a “participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory, enabling the joint design and implementation of a common development strategy, by making use of the local resources and competitive advantage in a global context, with the final objective of creating decent jobs and stimulating economic activity” (ILO, 2006, p. 2).

Finally, the GTZ maintains that LED is “an ongoing process by which key stakeholders and institutions from all spheres of society, the public and private sector as well as civil society, work jointly to create a unique advantage for the locality and its firms, tackle market failures, remove bureaucratic obstacles for local businesses and strengthen the competitiveness of local firms” (Ruecker and Trah, 2007, p. 15). This latter definition is distinguished particularly by its focus on LED as an ongoing process and recognizing that “an effort to stimulate economic growth of a local economy is bound to involve large scale systemic change” (Meyer-Stamer, 2008, p. 1). The notion of the ‘*systemic competitiveness of a territory*’ is thus introduced as a central concept for LED (Meyer-Stamer, 2008, p. 7) and defined as “the ability of a locality or region to generate high or rising incomes and improve livelihoods of the people living there” (Meyer-Stamer, 2008, p. 7).

From a review of international experience, therefore, it is apparent that there are different approaches to LED as well as different entry points for starting an LED process. LED processes offer an integrated approach to development rather than a ‘one size fits all’ solution. It is stressed that their core purpose is “to mobilise the local economic potential by bringing innovation to all its growth dimensions which range from infrastructure, to local SMEs and their skills, to attracting foreign direct investment, fostering territorial competitiveness, strengthening local institutions, better management of the development process and internalising local resources” (Rodriguez-Pose, 2008, p. 23). Bringing together local governments, the private sector and civil society in a search for the right LED formula “allows the community to build from the ‘inside-out’, capitalizing on local assets rather than from the ‘outside-in’ relying on external interventions” (ILO, 2008, p. 2).

Conclusion

LED approaches are distinguished most radically from traditional development approaches in their focus on a defined territory (ILO, 2008). What links the different approaches together “is the common concern for making local economies robust and creating productive jobs and incomes for local populations and also the recognition that local or regional competitive advantage rests on local interactions, knowledge spillovers and institutional synergies” (Salazar-Xirinachs, 2008, p. v). Although the activity of LED embodies a clear economic focus it is not simply about economic growth, rather it is geared ultimately towards attaining “a sustainable

development pattern which accommodates and reconciles economic, social and ecological issues and objectives” (Ruecker and Trah, 2007, p. 15).

3. MAPPING THE POLICY ENVIRONMENT

The objectives in this section of the report are twofold. First, is to provide a brief historical overview and discussion of current LED policies, frameworks and guidelines. Second, is to map out a picture of the key LED stakeholders and of how they define their own roles in LED.

Historical Overview of Policy Development

In policy terms South African approaches towards thinking about and planning for LED traditionally have been heavily influenced by the experiences of Britain and the USA, where a substantial body of literature on the subject had appeared, and by Australia, where the response to declining small towns had close parallels in South Africa (Harrison and Naidoo, 1999). The historical evolution of LED policy in South Africa has been marked by the appearance in the early 1990s of several significant policy documents (Nel, 2000). In 1994 the private sector think tank, the Urban Foundation (now CDE) prepared a policy document which strongly reflected and advocated the adoption of Western European and North American LED experience. By contrast, in 1995 the South African National Civics Organisation published their own strategy document which advocated community-based dimensions of LED (Nel, 1995). During 1996 the National Business Initiative, in collaboration with the RDP-Ministry, published an LED manual which straddles both community-oriented strategies and neo-liberal principles of independent policy action (Nel, 2000).

Since 1995 leadership in developing a national framework for LED has been assumed by the Department of Provincial and Local Government (formerly the Department of Constitutional Development) which has produced a series of policy statements. The legislative and policy context for LED has been shaped by several key pieces of legislation. First, the 1996 Constitution recognises the significance of local government in the statement that: “*A municipality must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community*”. Second, the 1998 White Paper on Local Government establishes the notion of “developmental local government” which is defined as “*Local Government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives*”. Third, the Local Government Municipal Systems Act of 2000 made the pursuit of Integrated Development Planning (IDP) a compulsory activity for local government and legislated a number of key LED functions and responsibilities (Van der Heijden, 2008). The essential aim of the Act is to “*provide for the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities*”. One crucial aspect of this Act is that it enables municipalities to establish service utilities to contract out services under certain circumstances. This enablement has laid the foundation for “the development of a customised model SPV [Special Purpose Vehicle] to drive LED at local government level in accordance

with international best practice and supported by institutions such as the Industrial Development Corporation” (IDC, 2009a).

The period 2000-2005 is notable for the first attempt made by DPLG to prepare a LED framework document. Two significant milestones were the 2001 LED Policy paper titled *Refocussing Development on the Poor* and the 2002 Draft LED Policy Document. It was argued in the 2002 draft LED policy document that LED activities should be anchored most firmly upon the *developmental* and *pro-poor* responsibilities that have been given to municipalities (Bond, 2002). The document rejected “orthodox” LED approaches which it viewed as both reflecting “corporate-dominated power relations, but in part also reflects the failure of some municipal officials to give more attention to sustainable development” (Bond, 2002, p. 6). Instead, it was argued that the document offered a ‘bottom-up’ approach to LED which was viewed as both challenging ‘the Washington Consensus’ and pointing to a community-based approach associated “with a new, more sustainable paradigm”. At the core of this new sustainable paradigm was stressed the importance of working with low-income communities and their organizations. Patterson (2008, p. 7) considers that the Draft LED policy emphasized “a more community-oriented approach to LED”. Overall, the proposed LED approach “explicitly aims to link profitable growth and redistributive development” (Bond, 2002, p. 5).

The pro-poor focus of the policy paper with its anchor upon infrastructure-provision in poor communities marked a significant departure from the international policy mainstream. The report argued an economic rationale for a programme of municipal community services-based LED, geared to expanding access to infrastructure and services, alongside the benefits for “greater gender equality, improved public health, lower levels of racial segregation, and improved social capital”(Bond, 2002, p. 14). This pro-poor LED policy document challenged the directions of conventional LED programming. Advocating a holistic and people-centred approach to LED the report directed attention to poverty alleviation. Nevertheless, it did this in a manner that critically left unexplored the question of economic growth and of its role in employment growth and income generation, which are pre-requisites for sustained improvement in the lives of the poor (Hindson, 2002). A further critical weakness was that the report defined local government as *the main driver of LED* at a time when international experience suggested that local government was more effective as a facilitator or enabler than as a driver of LED (Helmsing, 2001).

From the perspective of several observers, it is appreciated that *the period 2005-2007 marks a new and significant watershed in the history of LED policy frameworks* in South Africa. Importantly, after almost 10 years of LED being a statutory requirement for local authorities, the DPLG released an official statement of common understanding and goals for LED which provides to local authorities, for the first time, a definitive set of guidelines for their activities (DPLG, 2006a). The release of the 2006 framework document, *Stimulating and Developing Sustainable Local Economies*, confirms what Nel and Goldman (2006) identify as a new ‘policy

maturity' surrounding LED policy frameworks in South Africa. The document offers a vision for promoting "robust and inclusive local economies, exploiting local opportunities, real potential and competitive advantages, addressing local needs and contributing to national development objectives" (DPLG, 2006a).

In addition to the 2006 framework document, the period 2005-2007 also witnessed the finalisation and release of an array of other national policy initiatives which impact upon LED. These include

- The 2005 Policy Guidelines for Implementing Local Economic Development in South Africa (DPLG, 2005);
- The 5 year Local Government Strategic Agenda and Implementation Plan which appeared in 2006 (DPLG, 2006b);
- The Accelerated and Shared Growth Initiative (DTI, 2005);
- The National Spatial Development Perspective (NSDP) (The Presidency, 2006)
- The Draft Regional Industrial Development Strategy (RIDS) (DTI, 2006); and
- The National Industrial Policy Framework (DTI, 2007),

Overall, this new policy maturity in terms of LED policy frameworks can be interpreted as providing the essential basis for a phase of consolidation and for the foundations of forward movement in the progress of LED activities and practice. Within the five year strategic agenda, which covered all the roles and responsibilities of DPLG, LED was identified as one of five key performance areas (KPAs) of local government (DPLG, 2006b). Van der Heijden (2008, p.6) points out, however, that LED as an outcome is strongly interrelated and dependent upon the other four KPAs, namely, Municipal Transformation and Organisational Development, Basic Services Delivery, Municipal Financial Viability and Management, and Good Governance and Public Participation.

The 2006 National Framework sees the Government's vision for local economies as "*Robust and inclusive local economies exploiting local opportunities, real potential and competitive advantages, addressing local needs and contributing to national development objectives*" (DPLG, 2006a). The document lists the guiding principles of South Africa's policy framework for LED and its main objectives. It is asserted that the Framework does not dictate what should happen in different municipalities but "*focuses on what the state can do to support local leaders, communities, businesses, NGOs, organised labour and other stakeholders to realise their own and their collective objectives*".

The core *guiding principles* were defined as follows:

- *Through a developmental approach, Government has a decisive and unapologetic role to play in shaping the economic destiny of our country;*

- *Creating an environment in which the overall economic and social conditions of the locality are conducive to the creation of employment;*
- *Local Economic Development is an outcome of actions and interventions resulting from good local governance and the constant improvement and integration of national priorities and programmes in local spaces;*
- *Inward investment from the state or private sector will only be effective where the potential and competitive advantages of each area are known and exploited;*
- *Promoting robust and inclusive local economies requires the concerted coordinated action of all spheres of government centred on the application and localization of the principles espoused in the National Spatial Development Perspective (NSDP);*
- *Locally owned and appropriate solutions and strategies must emerge to support national frameworks in both rural and urban local spaces and should promote sustainable development and sustainable human settlements;*
- *South Africa competes in a global and increasingly integrated world economy whose threats must be minimized and whose opportunities must be exploited;*
- *Private companies, including social enterprises and cooperatives, form the heart of the economy and have a crucial role to play as partnerships with public and community role players that will ultimately stimulate robust and inclusive local economies;*
- *People are the single greatest resource and including all citizens in development and increasing their skills leads to increased opportunities for stimulating local economies;*
- *Local initiative, energy, creativity, assertive leadership and skills will ultimately unlock the latent potential in local economies and will shape local spaces.*

The 2006 Guidelines specified seven core objectives for the Framework:

- *To shift towards a more strategic approach to the development of local economies and overcome challenges and failures in respect of instances where municipalities themselves try to manage a litany of non-viable projects or startups;*
- *To support local economies in realising their optimal potentials and making local communities active participants in the economy of the country;*
- *To elevate the importance and centrality of effective functioning local economies in growing the national economy;*
- *To wage the national fight against poverty more effectively through local level debates, strategies and actions;*
- *To improve community access to economic initiatives, support programmes and information;*
- *To improve the coordination of economic development planning and implementation across government and between government and non-governmental actors; and*

- *To build greater awareness about the importance and role of localities and regions which globally are playing an increasingly significant role as points of investment facilitated by supportive national policies.*

The 2006 LED framework has been widely applauded not only as marking “a new policy maturity” but also signalling “a significant positive shift” in response to many of the challenges of earlier LED efforts (GGLN, 2008, p. 82). More broadly, the 2008 report issued by the Good Governance Learning Network (GGLN, 2008) sees the 2006 Policy Framework as reflecting a “shift in approach from the rigid planning approaches which have dominated LED practices from 1996-2006 to a more creative and flexible approach”.

Different Stakeholder Roles and Responsibilities

The 2006 Framework provides the overarching context within which the roles and responsibilities of different LED stakeholders can be situated. In the 2005 Policy Guidelines issued by DPLG (2005) the role of national government is described as that of coordinator of public policies and of investment programmes. In the 2006 Framework it is made clear that the function of *national government* “is to assist and create the conditions for local action to emerge and grow” (DPLG, 2006a). Above all, it is made clear that the state should play the role of *facilitator* for LED.

In relation to the practice of LED *the activities of DPLG* are at the core of national government programming. The DPLG has a Chief Directorate which is dedicated to LED as well as operating several programmes with strong LED links. The DPLG LED Chief Directorate affords support in the following activities:

- Development and review of national policy, strategy and guidelines on LED;
- Providing direct and hands on support to provincial and local government in selected cases;
- Management and Technical Support to Nodal Economic Development Planning; Facilitating coordinating and monitoring of donor programmes; and,
- Assisting on LED capacity building processes.

Patterson (2008, p. 16) considers that through these interventions the role of DPLG is to mobilize resources, local role-players and interest groups “for the sake of achieving economic growth and creating jobs to reduce poverty”. Further, it is stated that DPLG’s 5 year plan outlines three key priorities:

- Mainstreaming hands on support to local government to improve municipal governance, performance and accountability;
- Addressing the structure and governance arrangements of the State in order to better strengthen, support and monitor Local Government; and

- Refining and strengthening the policy, regulatory and fiscal environment for Local Government and giving greater attention to enforcement measures (DPLG, 2006b).

Historically, the role assumed by *the dti in LED* programmes has been considered by many observers to be at odds with that of DPLG. Patterson (2008, p. 4) points out that DPLG and the dti approaches are “based on conflicting paradigms and have been pulling in different directions; one towards a focus on poverty alleviation within poor communities, and the other towards engagement with global economic forces through means to enhance competitive advantage”. The dti does not currently have a formal policy statement or position document on LED (Masotja, 2009). It does however support the principles outlined in the draft RIDS. In addition, the National LED Framework contextualised and supported by various sector departments guides and outlines focus areas departments may address on LED and sets the tone on a common approach and understanding of LED. The dti supports the implementation of the National framework as a policy guide. The mandate of the dti in LED is that of policy support and development, capacity building amongst others in the area of LED planning, partnership building, facilitation of the implementation of LED interventions, and on-going LED support (Masotja, 2009). The dti considers the major responsibilities of DPLG to rest in areas of governance whereas its particular focus is upon economic development through competitiveness and exploiting comparative and competitive advantages of localities, enterprise development (including cooperatives) and, the promotion of entrepreneurship (Masotja, 2009). Other aspects of the dti mandate which impact upon LED include industrial development, sector development, customised sector support, investment and export promotion.

Within the Draft RIDS it is stated that in line with KPA 3 of the 5 year local government agenda it was agreed that DTI would focus on the following interventions with respect to LED:

- Building systemic competitiveness in District municipalities and assist in the development of credible LED planning;
- Building LED capacities in municipalities;
- Support the development of implementable LED plans that are aligned with IDPs by building industrial and sectoral analysis capacity within poor District municipalities;
- Provide LED institutional support at the District municipal level through the development of regional growth coalitions;
- Assist municipalities in the development of effective regional industrial road maps (regionally based economic development strategies) and business plans through the Regional Growth Coalitions;
- Prioritisation of LED interventions in Provincial Growth and Development Strategies;
- Development of 52 district and metropolitan municipal profiles;

- Support to municipalities with respect to the identification of industrial potential and areas and sectors of economic decline;
- Alignment of regionally based economic development strategies and economic profiles to spatial economic direction provided in the NSDP; and
- Alignment of LED to regionally based economic development strategies to national strategies such as the National Industrial Policy Framework and the Industrial Policy Action Plan (DTI, 2006, p. 37).

For the workings of RIDS, the importance of LED is described as “essential” (DTI, 2006, p. 37). It is stressed that DTI’s commitment to LED is confirmed by its dedication of “two of the RIDS ‘pillars’ to LED approaches which it has defined as ‘arresting economic decline’ and ‘building partnerships through growth coalitions” (DTI, 2006, p. 37).

Within the DTI, special mention must be made of the LED contribution made by the Small Enterprise Development Agency (SEDA) and of the Industrial Development Corporation (IDC). SEDA aims to establish a ‘national footprint’ with its efforts targeted at improving the viability and socio-economic contribution of small enterprises (including cooperatives). Established in 2004, the agency incorporates the former Ntsika Enterprise Promotion Agency, the National Manufacturing Advice Centre Trust, the Community Public Private Partnership Programme and the Small Enterprise Human Development Programme. The organisation’s central responsibility is “on developing products and services to assist small, micro and co-operative enterprises, while continuing to provide services products and services to medium enterprises” (DTI, 2008). As SMMEs are a core basis for job creation in LED, the role of SEDA is of considerable importance for LED.

The IDC assumes a vital role in LED through the provisions of the Municipal Systems Act. The IDC has taken on responsibility for supporting a network of Local Economic Development Agencies. It is stated that the IDC “in terms of its own development agenda has identified development agencies as a means to facilitate development in communities, and based on studies of international best practice, is prepared and committed to helping municipalities establish such agencies” (IDC 2009b, p. 2). The IDC’s Agency Development and Support Department (ADS), which was established in 2002, is tasked “to leverage the development and job creation potential inherent in various geographic areas, particularly those falling outside the industrialized zones” (IDC, 2009b, p. 4). The mission of ADS is “to provide funding and support to local government – for the identification, facilitation, development and promotion of sustainable integrated local economic development opportunities and potential – through the establishment of focused municipal entities” (Bartlett, 2009a). As of 28 February 2009 the ADS portfolio consisted of 24 LEDAs of which 7 were operational; 6 were in establishment phase; and 11 in a pre-establishment phase of activity (Bartlett, 2009b).

In addition to DPLG and DTI there are several other national departments with responsibilities for implementing a range of programmes that have important implications for LED. Among the list of these departments would be:

- Department of Agriculture
- Department of Environmental Affairs and Tourism
- Department of Public Works
- Department of Minerals and Energy
- Department of Communications

Turning from the national sphere to the respective roles of *sub-national government* – the provinces, the district municipalities, metros and local municipalities - it has been observed that these roles “are not always clear and sometimes overlap” (Van der Heijden, 2008, p. 9). The 2005 LED Policy Guidelines sets forth key roles and responsibilities for the provinces and local government. The role of *provincial government* is seen as follows:

- To assume a coordination role and taking responsibility for resources allocated from national to provincial government and ensuring that these are correlated with the priorities of the various IDPs.
- Provinces should establish LED fora to carry out the work of the National LED Forum and establish dedicated LED units in provincial governments
- Provinces assume a role in building the capacities of municipalities to undertake LED and in supporting them in its implementation.
- The role of the Provincial Growth and Development Strategy (PGDS) is considered vital for the coordinated development of “the local economy in the province” (DPLG, 2005, p. 20).

The 2006 framework provides the clearest picture of the roles and responsibilities of *local government* in LED. Three core roles are identified:

- To provide leadership and direction in policy making (cutting red tape, improve business environment)
- To administer policy, programmes and LED projects; and
- To be the main initiator of economic development through public spending, regulatory powers and promotion of industrial, small business development, social enterprises and cooperatives.

The 2005 LED Policy Guidelines provide a valuable check list of the responsibilities of municipalities in LED (DPLG, 2005, pp. 22-23):

- Earn the hallmark of a capable municipality;
- Emerge with innovative solutions to local challenges;
- Improve financial viability
- Learn to effectively market the local area;

- Deal effectively with local level crises and/or structural economic changes;
- Address localised socio-economic challenges and promote LED whilst contributing to broader national socio-economic objectives;
- Mobilise local resources effectively;
- Encourage local initiative;
- Build social capital;
- Create the conditions for local action to emerge;
- Seize development opportunities
- Tap into networks, programmes and funds
- Insert the locality into the global economy as a key centre of production, investment and innovation;
- Plug leaks in the local economy; and
- Develop local skills.

Overall, in line with international best practice, local government is here allocated a *facilitative or enabling role* in LED processes.

Outside of government, an important role is played in LED by a number of other key stakeholders. The South African Local Government Association (SALGA) is a legislated body representing the interests of Local Government in South Africa. The National Directorate of Economic Development and Planning within SALGA is responsible for promoting economic development, development planning, overseeing IDP, environment issues, tourism promotion and improved municipal financial management. Among the key objectives of this Directorate is to assist local government in developing LED programmes that ensure that priorities and policies determined at national level are rolled out at provincial and local level. A recent study for SALGA to provide input into the organisation's LED activities concluded that SALGA could assume a vital role in terms of two themes. First, in terms of contributing towards transformation and organisational development SALGA could play a role in terms of forging a better understanding of LED and of the role of local government in LED, raise the profile of LED in municipalities and encourage the sharing of 'good practice'. Second, SALGA might contribute to the stimulation of local economies and poverty alleviation variously through improving data for local planning, support local capacity to understand value chains and promote LED networks (Van der Heijden, 2008, p. 24).

The Development Bank of Southern Africa (DBSA) is another key strategic partner in LED. The Bank's mandate is to accelerate socio-economic development through the financing of physical, social and economic infrastructure. Essentially, the Bank assumes multiple roles as "financier, advisor, partner, implementer and integrator to mobilise finance and expertise for development projects" (Patterson, 2008, p. 13). In relation to LED the DBSA is assuming a crucial role in providing funds to support an integrative approach that deals with what are considered as critical capability gaps for the development of LED strategies (DBSA, 2008). During 2007 the Bank initiated a process to establish a Local Economic Development Fund with the objective of "unlocking economic potential within identified localities to drive

shared growth” (DBSA, 2008, p. 7). This is to be achieved through six sets of activities:

- Developing the requisite strategic frameworks or LED strategies;
- Leveraging economic infrastructure to stimulate economic activity and nurture social inclusion;
- Closing funding gaps by initiating a funding vehicle “that combines different sources and levels of risk and debt capital – aimed at financing socio-economic development at cost levels that underpin financial viability of the recipient entity” (DBSA, 2008, p. 7);
- Collaboratively mobilising stakeholders to leverage private sector participation, promote collaborative networks and build lasting social compacts
- Nurturing, building and managing relationships crucial to the achievement of national development goals; and
- Building institutional capacity, through the offerings of the Bank’s Vulindlela training programmes and through building University partnerships (DBSA, 2008, 2009).

Finally, a valuable role is assumed in the landscape of LED in South Africa by the activities of the group of international donors, including the European Union, The World Bank, GTZ and DFID. For example, the EU LED Support programmes operates in Eastern Cape, KwaZulu-Natal and Limpopo providing both financial and technical support to local government as well as to the private sector. The GTZ Strengthening Local Governance Programme’s LED Component assumes the role of providing financial, technical and institutional support to national government and through its partners to “empower local and district municipalities to start LED processes and take up local and regional economic opportunities” (Patterson, 2008, p. 12). More specifically, the GTZ has supported the 5 Year Local Government Strategic Agenda in the areas of:

- LED policies and strategies;
- Supporting Partnerships and Networks;
- Knowledge management and dissemination;
- Innovative solutions to developing and implementing LED strategies;
- Human resource development;
- Strengthening the supply of LED expertise; and
- Direct support to both development and implementation of LED strategies in both the Eastern Cape and Mpumalanga (Trah, 2009)

Assessment

In reviewing the lists of roles that various stakeholders define for themselves in relation to LED processes, what is most striking is the *enormous duplication of tasks* between the different stakeholders. For the two major government departments

involved in LED – namely DPLG and DTI – there is a considerable degree of overlap and thus an urgent need for greater coordination. The active involvement of other stakeholders, such as DBSA or SALGA, once more introduces another layer of duplication of several of the tasks which are taken upon by DTI and DPLG. This analysis points to two conclusions:

- *First*, potential confusion may occur as a result of the duplication of existing tasks in LED;
- *Second*, that the key stakeholders involved in ‘doing LED’ – namely DPLG, DTI, DBSA, IDC, SALGA and potentially SEDA – should engage in a process which defines *complementary* roles for each partner rather than the existing situation of overlapping roles and responsibilities.

4. LED PRACTICE 1994-2009: A 15 YEAR REVIEW

Over the past decade much has been written about unfolding LED practice in South Africa and a number of critical assessments have been produced (Nel, 2001; Nel and Rogerson, 2005; Nel and Goldman, 2006; Rhodes University et al. 2006; Rogerson, 2008). This section seeks to draw together these varying assessments and to offer a broad overview of the directions of 15 years of LED practice in South Africa.

Historical Development of LED Practice

At the outset it must be appreciated that during the apartheid period heavy emphasis was given to top-down national government directed regional policy interventions. One consequence of this heavy top down planning was that the activity of LED was undeveloped. Incipient LED activities, however, did emerge in South Africa prior to the 1994 democratic transition. These activities were limited and confined mainly to a scatter of city-based initiatives focused around place marketing designed to attract inward investors (Rogerson, 1999). Since 1994 the promotion of LED initiatives has emerged as a central aspect of policy and planning for both urban and rural reconstruction (Nel, 1994, 1995, 2001; Xuza, 2007a). The new emphasis accorded to LED promotion is inseparable from the changed processes shaping the national economy since 1994 (Pycroft, 2000). Of great importance is the impact of globalization processes and of accommodating forces of globalization to ensure South Africa's re-entry into the global economy, make the country attractive to international investors and enhance the role of the private sector (Pycroft, 2000; DBSA, 2000). Within this changing environment Hall and Robbins (2002, p. 43) observe that South African localities were compelled "to engage in serious soul-searching about their role in a new political order while facing up to complex and dynamic global forces". In several cases the onset of a local economic crisis linked to mine or factory closures was a precipitating force for the launch of pro-active LED initiatives (Nel and Hill, 2001; Nel and Binns, 2002a; Hill *et al*, 2003).

In the evolving practice of LED across much of South Africa an important role was played by the Local Economic Development Fund launched by DPLG in 1999 as part of national government's overall poverty alleviation strategy. The launch of this Fund was a major catalyst for triggering a project-based approach to the practice of LED across much of the country (Van der Heijden, 2008). Under this Fund municipalities could apply to DPLG for the funding of projects, such as cultural tourism initiatives, the promotion of agro-processing, the development of business incubators or human resource programmes (Binns and Nel, 2002). Despite well meaning intentions the outcome of this Fund was the proliferation of a host of small, unsustainable projects (Binns and Nel, 2002). Most importantly, the Fund "ultimately failed to deliver long-term sustainable LED" with the majority of projects folding after the end of project funding. Patterson (2008, p. 8) observes that during the period of the Fund's operations "there was a general lack of understanding of what LED was and the capacity to implement it, particularly at local government level". In Mpumalanga, for example, a 2002 investigation of the state of LED in the province showed that

municipal administrations “tend to be deeply uncertain as to what LED means, what they are supposed to do and how they are supposed to organize it” (Meyer-Stamer, 2002, p. 3). Under such circumstances the possibility of municipalities securing financial assistance was an enormous incentive to apply for the limited available funding, yet it resulted in poorly thought out business plans and of projects being put forward without any prior feasibility assessments (Binns and Nel, 2002; Patterson, 2008). In addition, “beneficiaries were often not consulted in the process, which resulted in a lack of ownership of the projects” so that rather than forging long-term sustainable LED, the outcome of the Fund was a set of poorly managed projects which were dependent on external funds for their continued existence (Patterson, 2008).

As a result of its disappointing outcomes the DPLG LED Fund was collapsed into the Municipal Infrastructure Grant (DBSA, 2008, p. 2) One legacy of the LEDF was its tacit role in fostering a practice of LED that was more akin to social work rather than to the building the competitiveness of localities (Meyer-Stamer, 2002, p. 8). For most municipalities the initial LED practice was confined to SMME projects, the support of survivalist type initiatives in the form of “community economic development projects, the majority of which proved unsustainable once donor or public sector funding disappeared, and so had no real impact on poverty reduction” (Van der Heijden, 2008, p. 3). Likewise the DBSA (2008, p. 3) records that, until recently, the main focus of most municipal LED initiatives was on micro-level projects with the result that “it lost currency as an effective sustainable development tool” (DBSA, 2008, p. 2). It must be understood that while micro-level projects may be desired these projects are often only viable if aggregated together to a level that economies of scale become possible (Murray, 2007, p. 35). The national review undertaken by the Good Governance Learning Network (2008) agreed that the successes of project-focussed LED were limited and where interventions did work they tended to be tourism linked (GGLN, 2008, p. 84). The evident failure of LED to achieve its objectives in many of South Africa’s poorest and most disadvantaged areas undoubtedly is a key factor “behind much of the social unrest that we have seen in the past few years” (Van der Heijden, 2008, p. 5). Although it is much easier to design projects than to address structural and institutional barriers to local development, the DPLG 2006 LED Framework makes clear that this project based approach must be replaced by a more holistic and strategic practice to creating robust and vibrant local economies.

This strategic and comprehensive LED approach focused on competitiveness has been an evolving feature in the country’s major cities for nearly a decade. In cities the mainstream of mainstream of LED practice has been dominated by market-led LED practices that have been increasingly geared towards achieving competitiveness and of achieving sustainable high economic growth rates (Nel and Rogerson, 2005). The creation of a sound governance environment provides the starting point for undertaking such forms of LED practice (Bloch, 2000; Robbins, 2003). It is evident that in many respects LED practice in South Africa’s leading cities took its evolutionary cue from North American and Western European

experience as Johannesburg, Durban, Ekurhuleni, Pretoria and Cape Town led the way in initiating LED activities in support of building local competitiveness.

Contemporary LED Practice

Across the major cities there is growing acknowledgement of the imperative need to respond to situations of weak demand and micro-economic constraints on local productive capacity (SACN, 2004). Micro-economic reforms designed to make local economies more productive have been an important focus of LED intervention (SACN, 2004). Another response was for cities to “gear into exports” and seek to fix micro-economic constraints in order to engage competitively in the global economy, not least in the league of ‘world-city’ players. The IDPs and broader restructuring plans of major centres highlight the issue of ‘positioning the city in the global economy’ (Hall and Robbins, 2002). Commonly, this has been associated with sectoral targeting or “picking a number of winning sectors or sub-sectors that the municipality believes through targeted support, may become their city’s competitive advantage in the global economy” (SACN, 2004). The City Development Strategy for Tshwane stresses the “strengthening key economic clusters to gain leverage from growth trends in manufacturing, government and business services” with identified actions to include “city support for the automotive, defence and metal industries clusters, all of which have the potential for further growth and increased global competitiveness, including potentially forming a ‘super cluster’ with mutually reinforcing initiatives” (SACN, 2004). The growing targeting of sectors is reflected also in the sophisticated strategies for investment attraction used by many cities. This is exemplified in the special attention given by Cape Town for attracting investors to the city’s expanding film industry and of the targeting both by Cape Town and Johannesburg of the labour-intensive call centre industry.

Finally, in the search for more productive and competitive cities there have been instituted a series of other notable LED pro-growth interventions. First, are a set of initiatives which are geared towards enhancing institutional efficiency and the efficiency of the urban form in terms of, for example, interventions designed to reduce the local cost of doing business in a particular locality or of improving local ‘logistical pathways’ in order to strengthen the relationship between economic growth and infrastructure investment. Second, are a series of initiatives focused on improving safety and security through the installation of closed circuit television in city centres which are responding to the findings from surveys that disclosed perceptions of crime and actual crime against businesses as major deterrents for business investment. Finally, another popular LED initiative amongst several of South Africa’s largest cities is the operationalisation of the American model of Business Improvement Districts for the physical upgrading of inner city areas (SACN, 2004). As a whole, Meyer-Stamer (2008, p. 15) considers that some of the metros “have achieved a level of systemic competitiveness that is relatively high, even compared with other middle income countries”.

Several variants of what is termed “place entrepreneurialism” can be identified in the practice of LED in our cities. The first is to *enhance the competitiveness of cities in respect of manufacturing or production* activities. At the broadest level of interpretation, the activities of local authorities are designed to improve their business environment as well as market the locality to external industrial investors both local and international. Business retention measures linked to manufacturing activity would also fall into this category of LED practice. Enhancing the investment climate of cities is a critical aspect of this form of LED practice and is reflected in the activities of, for example, the Durban Investment Promotion Agency or the establishment of the Tshwane Economic Development Agency. Another dimension of a search for enhanced competitiveness in production related activities is support or facilitation for the provision of infrastructure to make cities attractive for the location of high technology industry. Support for the development of research or science parks, science incubators represent facets of this focus on manufacturing competitiveness. Finally, a critical role is assumed by initiatives that seek to support the upgrading of clusters through benchmarking initiatives or promoting manufacturing excellence (Morris et al. 2006; Morris and Barnes, 2006). The cluster approach for enhanced competitiveness crosses sectors in terms of organising support. Typically, Cape Town recognises that focusing on a single industrial activity is insufficient to create sustainable competitive industries. Instead, its focus must be on facilitating the development of ‘clusters’ as wider networks of competing and collaborating producers, suppliers, business services, educational institutions and government support mechanisms all oriented around one sector or sub-sector. The existence and strengthening of these clusters is understood as a powerful attraction for new investors while further investment, especially foreign investment, could make them more competitive in global markets (City of Cape Town, 2006).

Across the country’s major cities, despite a highly competitive global environment, the retention and promotion of manufacturing continues to be a significant LED activity which is centred upon economic restructuring, promoting collective learning in industrial agglomerations, and maximizing the development of firm competencies at the local level (Machaka and Roberts, 2004). Research conducted in Ekurhuleni suggests an important role for an LED model which would effectively implement a local industrial policy for broad-based industrial development and employment creation (Machaka and Roberts, 2004). Elements of such a model include collective action by government and firms to support the ‘learning’ of firms in developing production capacities, the building of institutions to support the interests of local manufacturers, and provision of appropriate institutions to support firms that adopt constructive strategies that enhance performance, including skills and technology development (Machaka and Roberts, 2004; Pogue and Maharajh, 2004; Zalk, 2004).

A second basic approach to LED entrepreneurialism stresses *enhancing the competitiveness of localities as centres of consumption* rather than of production. The popularity of this style of LED planning is rapidly expanding and the volume of new

initiatives of this nature presently is catching up, if not overtaking those relating to manufacturing. A growing number of localities, from large cities to small towns, are beginning to undertake pro-active interventions for LED using tourism as the lead economic sector. This expansion of local level tourism initiatives is inseparable from the essential stagnation of South Africa's manufacturing economy, in terms of new job creation, and of the corresponding search for new local sectoral drivers for job creation and economic growth, not least including tourism. Against this background, an increasing number of the partnerships for LED which are formed between local stakeholders in the private sector, local government and communities are focusing upon the economic potential of tourism.

Within this second entrepreneurial approach, the local authority undertakes a set of interventions designed to make the area a more 'exciting' or attractive place for the purposes of consumption, entertainment or recreation. It is evident that many South African local authorities have recognized the need to build a local development strategy which breaks away from the issue of the city simply as a competitive centre for industrial production and instead embraces the promotion of tourism-linked activities. Examples of this second form of entrepreneurialism are furnished in all South Africa's largest cities. Not surprisingly, the earliest LED initiatives for building tourism as a lead economic sector occurred in South Africa's major traditional tourist destinations of Cape Town and Durban. As early as the 1980s in these well-established tourism cities, the local authorities and private sector began to innovate a number of LED initiatives around tourism, the most dramatic being the construction of spectacular waterfront developments. During the 1990s, however, a number of non-traditional tourism places in South Africa – most notably Johannesburg - also have been undertaking new initiatives to promote tourism development. In Johannesburg, several initiatives (including joint initiatives with Gauteng province) have taken place for catalysing urban tourism as part of wider development programmes seeking to promote job creation and city economic growth. Key developments have included:

- The promotion of business tourism through competitive bidding by the Johannesburg Tourism Company for the hosting of conferences and meetings;
- The establishment of new heritage and cultural products, including Constitution Hill, the Newtown Cultural District and of township tourism.
- New support for cross-border shopping tourism, including a planned Shopping Festival to be held in September 2009.
- A focus on sports tourism and of the attraction of major sporting events to the city.

The third category of entrepreneurial LED activity is the most limited in terms of the number of available South African examples. The essence of this third category is a focus on *promoting competitive service-based activities* and of high-level information processing or decision-making, which would be core elements of 'knowledge-based' economic growth. The major localities which are active in this form of LED practice

are Johannesburg, Cape Town and Durban. All South Africa's leading cities are seeking to attract or retain agglomerations of 'knowledge-based activities' as well as to widen and deepen their pool of local skills. In particular, there is intense competition emerging between the ambitions of Cape Town and Johannesburg to be the major national axis for high technology manufacturing and information technology activities. Another critical facet of efforts to attract knowledge-based economic activities is local level interventions which are crafted to improve the local skills base for the nurturing of clusters of innovation and R & D activity. Currently, Johannesburg, Durban and Cape Town are active in supporting infrastructure development and seeking to attract the activity of Business Process Outsourcing and Offshoring Activities (BP & O), most importantly of call centres. For example, the City of Cape Town is actively supporting the vision of making "Cape Town the destination of choice for the call centre and BPO industry both within South Africa and globally" (City of Cape Town, 2006, p. 20). It is cautioned that despite the relatively high cost of labour "Cape Town is well placed to capture the market if it can align government, the industry and suppliers around a common vision" (City of Cape Town, 2006, p. 20). In support of this goal, 'Calling the Cape' is a sectoral initiative designed to facilitate and promote BPO in Cape Town. For interventions in this sector to succeed, it is acknowledged that the City of Cape Town needs to remove general constraints and ensure, *inter alia*, 24/7 public transport; consistent and regular electricity supply; telecommunications infrastructure; and reduced crime (City of Cape Town, 2006, p. 20).

Although the major directions taken by LED planning in South Africa's cities evidence a strong pro-growth bias, there are other aspects of LED practice in cities which have a welfare or pro-poor focus (Rhodes University et al. 2006). The most common form of pro-poor interventions have been those undertaken in order to strengthen the 'asset base' of poor communities. Among the most important LED interventions with a welfare or pro-poor focus must be noted:

- Improved delivery of infrastructure which maximizes opportunities for both employment creation and SMME development in disadvantaged areas;
- Creating an improved regulatory environment for SMMEs in general;
- Setting aside municipal land and facilitating the activity of urban agriculture;
- Local government policy intervention to provide a more facilitative environment especially for the functioning of survivalist enterprises. Forms of policy intervention range from the development of a local information base, zoning changes, marketing support and promotion, facilitation of periodic markets, and, assistance for development of appropriate vocational training;
- Improving business infrastructure to support the activities of emerging entrepreneurs, including the facilitation of small business hives, incubators or nurseries, the provision of markets, or making available premises for use as local business information, support or advice centres;

- The application of targeted public procurement to support the SMME economy;
- Improving the skills base in poor communities;
- Ensuring the development and functioning of a local business environment in which markets work for the poor; and
- Maximising the impact of the Expanded Public Works Programme.

Outside of the country's major cities, a crisis of growing unemployment has spurred the launch of many other LED initiatives in the country's secondary cities and small towns. In difficult economic circumstances, the urgent need for secondary cities to implement what Pillay (2004) describes as "productive development policies" is stressed as a defence against the threat of economic marginalization. Over the past decade, many of our secondary cities have sought to confront serious challenges in relation to factory or mine closures or downsizing. This has triggered LED responses in the form of economic adjustment to the decline or disappearance of the local economic base. Examples of secondary centres that have introduced LED responses in relation to economic decline are Klerksdorp, Mafikeng, Newcastle, Rustenburg, Welkom and Witbank (Mosiane, 2000, 2002; Nel and Binns, 2002a; Pillay, 2004).

South Africa's small towns have also faced the need for readjustment. As a whole small towns have been generally bypassed as rural service centres either because of the better services offered in cities (as is the case in Free State or North West), an absolute decline in agricultural output (such as in the Karoo and parts of Eastern Cape), or they have lost the reason for their initial establishment such as the case of former railway towns or mining localities. Although it is the case that it might never be possible to restore former levels of economic prosperity, the bleeding of local jobs and businesses should provide an impetus for pro-active forms of LED intervention (Nel and Rogerson, 2007). That said, a national study conducted in 2006 of LED in small towns pointed to the conclusion that LED in smaller centres is limited and lagging far behind LED practice either in the country's large cities or secondary cities (Nel and Goldman, 2006). In particular, the survey disclosed that the ability to actually promote development was inhibited by a range of factors including resource constraints, the absence of a guiding policy as well as the absence of local political and institutional mechanisms (Nel and Goldman, 2006). As a consequence of the legacy of apartheid neglect the most difficult circumstances for promoting LED in small towns occur in the marginalized former Bantustan towns.

The situation of LED in small towns is not universally bleak with some local success-stories recorded especially in relation to promoting small towns as tourist or retirement centres (Nel and Rogerson, 2007; Keal, 2008). The Eastern Cape small town of Bedford is one example of a small town re-emerging as a retirement centre (Keal, 2008). The most notable individual small town tourism initiatives are those

taking place at Rhodes, linked to skiing, or Stilbaai and Lambert's Bay which are related to the demise of the traditional fishing economies in these towns. At Stilbaai the tourism focus is upon the development of an attraction centred upon South Africa's rich base of indigenous plants (Nel and Binns, 2002b). Other significant successful developments which are oriented around tourism as a lead sector relate to route tourism initiatives such as those taking place in the Midlands Meander of KwaZulu-Natal (Lourens, 2007a, 2007b) or the Magalies Meander which is an LED catalyst in both parts of Gauteng and North West provinces (Rogerson, 2007). The key to revival of Alicedale (Eastern Cape) and its transformation from a railway to a resort town has been the formation of strong public-private partnerships which has focused on tourism-based development (Gibb and Nel, 2007).

One striking finding concerning LED in small towns is the role of a strong dedicated local leader or local LED 'champion', which is much more important for successful LED than in the larger better-resourced cities (Nel and Rogerson, 2007, p. 9). From the successful experience of Somerset East, the revitalization of small towns might be best undertaken by outsourcing the function of LED to a local development agency (South African LED Network, 2008). Another emerging success story in small town revitalization is through the initiatives of the Amathole Economic Development Agency which is applying a corridor development approach to anchor the regeneration of the small towns in Amathole district (Xuza, 2007b; GTZ, DPLG and DTI, 2008).

Assessment

In conclusion, it is most important to appreciate that considerable differentiation exists across the space economy in terms of the practice of LED. At one end of the spectrum is the situation in the major cities. Here the activity of LED has shifted clearly in the direction of pursuing a comprehensive LED practice, which is dominated by issues of competitiveness but also embodies elements of a welfare or pro-poor focus (Nel and Rogerson 2005; Rhodes University et al. 2006). Indeed, the practice of LED in the major cities, which emphasizes the building of systemic competitiveness, has been favourably compared to that occurring in other middle income countries (Meyer-Stamer, 2008, p. 15). Outside the metropolitan areas, however, the picture is uneven and generally much less positive. Although there are notable cases of pro-active LED responses to economic decline in secondary cities and small towns, the general picture is not promising. One highly critical assessment of South Africa in the comparative international context described the lagging nature of LED beyond our cities as "somewhere between third and fourth world" (Meyer-Stamer, 2008, p. 15).

5. PARTNERSHIPS FOR LED

The aim in this section is to explore the role of ‘partnerships’ in LED. Partnerships are defined as a collaboration between municipalities, the private sector, civil society to commit to work together on a project or programme to pursue common goals and in which the different partners bring complimentary resources, contribute to the design of the programme and share risks and benefits (adapted from Stibbe, 2008, p. 4). As argued by Marais (2008, p. 1), partnerships “have not always been central to LED planning and development” and “only identified as a crucial element of LED at the beginning of the 1990s”. Partnerships are the vehicle for expanding the involvement and role of the private sector in LED. Currently, the promotion of partnerships is acknowledged to be a key facet of LED and recognised as such by several donor agencies including the ILO (Christensen and van der Ree, 2008) and UNCDF (Shawa, 2008).

The Nature and Benefits of Partnerships

A central aspect of LED is partnerships that are forged between local government, business, NGO’s and communities (GGLN, 2008, p. 81). For Marais (2008, p. 1) partnerships “are often regarded as a *sine qua non* for local economic development” and there are “cogent reasons to structure LED projects around partnerships, especially where the underlying rationale is to develop the second economy”. The new shift in LED offers tremendous opportunities for partnerships revealing “an intrinsic overlapping of interest between business and the public sector” (Stibbe, 2008, p. 3). In theory “partnerships promise benefits arising from economies of scale, and the sharing of resources, commitment and enthusiasm” (Marais, 2008, p. 2) Through the building of partnerships “the advantages of the private sector – dynamism, access to finance, knowledge and technologies, managerial efficiencies and the entrepreneurial spirit – are combined with the social responsibility, environmental awareness, local knowledge and job generation concerns of the public sector” (Bennett et al. 1999, p. 25).

In South Africa most attention has been so far devoted to the establishment and operationalization of *regulated* PPPs “with considerable energy put into developing the necessary legal framework and guidelines, including the creation of a specialized Treasury PPP Unit” which is mandated to promote and regulate such arrangements (Stibbe 2008, p. 6). A lesser known form of partnership is the Cross-Sector Partnership (CSP) which is unregulated. Essentially, CSPs involve government, business and civil society working together in areas of mutual interest to achieve common – or at least complementary- goals. Unlike regulated PPPs CSPs do not result in private sector enterprises profiting directly by providing public services; rather they tend to be what Stibbe (2008, p. 6) calls more ‘organic’ and often arise haphazardly “where there is a need, with partners who share a common interest (often including civil society partners) and with a structure shaped by the history and context out of which they’ve formed”.

The research of GTZ and IDC points to a finding that in local economic development opportunities exist for the formation of both formal regulated PPPs as well as the less formal CSPs (GTZ and IDC, 2008, p. 1). PPPs and CSPs are collaborations across the public and private sectors which are seen by the respective parties as facilitating greater gains than could be realised through working separately or in conflict (GTZ and IDC, 2008, p. 4). It is argued that as the legal requirements for formal PPPs are complex and often daunting to government officials less formal cross sector collaboration – typified by joint-decision-making, the addressing of common interests and the bringing together of complementary resources and competencies “could be a more fruitful route than formal PPPs” (GTZ and IDC, 2008, p. 2). One example of a CSP would be the convening of a LED Forum in a particular locality to address rising problems of unemployment and drawing together stakeholders from business, local government and civil society to evolve an LED strategy. LED Forums are “frequently used as a semi-permanent vehicle for authorities to consult with stakeholders” (GTZ and IDC, 2008, p. 16).

The benefits of partnerships are, *inter alia*

:

- that they can lever innovative approaches to LED;
- easy to establish and equally can be closed down with little administrative cost or expense;
- harness the power of different sectors to provide the opportunity to do local economic development better;
- offer a mechanism to enable each partner to share its own specific competencies and capacities to achieve common and complimentary goals more effectively;
- provide access to more resources from technical knowhow, human resources, social capital as well as financial resources;
- offer a platform for increasing and improving the participation of civil society and business in local affairs;
- improve transparency and accountability between partners;
- allow partners to gain a better understanding of each other in terms of building bridges between each other; and,
- offer possibilities for greater long –term sustainable economic development (GTZ and IDC, 2008; Stibbe, 2008).

Partnerships can take on a variety of different forms, including service contracts, BOT concessions, joint ventures (Bennett et al. 1999; GTZ and IDC, 2008; Stibbe, 2008). Municipal service partnerships – taking the form of formal PPPs - involve some combination of the elements of design, build, operate, transfer, finance and maintain. (GTZ and IDC, 2008, p. 8). The spectrum of government roles ranges from provider to enabler and regulator (Bennett et al 1999). Strong foundations for PPPs are based on complementary goals and an enabling regulatory and political environment. It is argued that partnerships can only work to the extent that the goals of the major stakeholders are compatible as well as understood and accepted by all parties (Bennett et al., 1999, p. 17). Government, business and community

leaders must understand and respect each other's goals. Often it is the case that government has difficulty in accepting the profit motive of private investors and enterprises are often tempted to walk away from the administrative decision-making processes used in the public sector. It is argued that in order to resolve these differences all parties must focus on the broader complementary goals to be achieved. Importantly, "public and private goals do not necessarily need to be the same for partnerships to work – they must merely be compatible" (Bennett et al. 1999, p. 17). Nevertheless, the international experience confirms that an "enabling regulatory, legal and political environment is the cornerstone of sustainable private sector participation" (Bennett et al. 1999, p. 18). As all local governments are not the same, however, "public and private sectors will face a steep learning curve as they try to define and regulate their relationship with each other" (Bennett et al, 1999, p. 18). In the less formal CSPs there are established inclusive stakeholder driven bodies to address a range of diverse social, economic or environmental issues.

The Record of Partnerships in LED

The record of partnerships in South Africa is uneven with both positive and negative experiences. One negative experience of partnerships is recorded in the European Union supported LED Gijima projects in KwaZulu-Natal (Marais, 2008). The Gijima partnerships constituted an input requirement with which Gijima projects had to comply if they were to be access grant finance. It was observed that public-sector beneficiaries mainly created partnerships with organised business, mainly local Chambers of Commerce and NGOs mainly partnered with other NGOs. The critical findings of Marais (2008, p. 6) suggest that the partnerships were ad hoc and that there was little evidence to suggest that these partnerships, which were initiated on a project by project approach, "were further developed into any long-term arrangement" for promoting LED in Kwazulu-Natal. Although LED partnerships are essential what happened in the Gijima experience was "mere lip-service – pro-forma compliance with an imposed requirement, but with minimal appreciation of the substantive merits or problems entailed" with the consequence that "the benefits of partnership were seldom realized" (Marais, 2008, p. 10).

In terms of successful LED, examples of CSPs are partnerships for the development of tourism routes. The case of the Midlands Meander is the flagship South African case of how the private sector conceptualised and developed tourism as a once marginal economic sector and transformed it into the lead sector for LED. Leadership for development of this route tourism initiative has been provided by the Midlands Meander Association (Lourens, 2007a, 2007b). The successes of the Meander are based upon a combination of factors. Lourens (2007b, 84) stresses the significance of having a "clearly identified unique selling point" to establish the route, namely 'Cottage industries in the country'. The area has evolved a wide range of complimentary products that add value to the generic product. Critically important has been the build-up of management capacity in the private sector route association. The Midlands Meander Association successfully overcame

fragmentation, developed capacity and mobilized a range of diverse stakeholders, including local government, to collaborate for development of the local economy (Lourens 2007a). Here, the local authority played a useful facilitative role in support of the Midlands Meander in terms of forging linkages between various spheres of government relating to particular tourism development issues, such as questions of road signage. Overall, in identifying success factors the special “role of local government and private sector stakeholders during the implementation and management of routes cannot be overemphasized” (Lourens 2007b, p. 91).

Another kind of CSP arrangement is the *agency* which are “independent organisations set up to implement a particular mandate in a given area” (GTZ and IDC, 2008, p. 18). A partnership between the UNDP, UNOPS and DTI underpinned the establishment of a series of LEDAs between 1999 and 2003. For the ILO LEDAs are “independent organizations, shared by public and private institutions with the aim of implementing strategies of shared territorial development with particular emphasis on favouring access for the most marginal portions of a population to opportunities of income and decent employment” (ILO, 2003, p. 2). Originally, LEDA’s were “participatory structures established at local level to encourage sustainable economic growth, income generation, employment and decent jobs” (Pretorius and Blaauw, 2005, p. 2). The specific focus was on small entrepreneurs and the poor with entrepreneurial potential. Initial target areas were four district municipalities in Limpopo, Mpumalanga, Northern Cape and Eastern Cape. The experience of the initial Local Economic Development Agencies (which reported to SEDA) – which drew from international models - has been chequered in South Africa with the majority ceasing to function after donor support came to an end (Pretorius and Blaauw, 2005). Essentially, their failure can be explained in terms of the fact that they were not ‘true’ LEDAs in the sense of fostering the identification and exploitation of local economic partnerships and opportunities; rather, these first wave of LEDA’s pursued a traditional micro-enterprise promotion approach.

Despite the negative experiences of first wave LEDAs, the agency model is well established in South Africa and often supported or established by organisations such as the IDC. Autonomous agencies with a mission to focus on a specific geographical area have the advantage of being able to function with a greater degree of independence than government organisations but can be guided by representatives of the public sector (Khanya–AICDD, 2006; IDC, 2009a, 2009b, 2009c). LED agencies have been adopted by many South African municipalities whereby dedicated capacity is organized to implement targeted economic development initiatives (Khanya-AICDD, 2006). Legally, the agency can be constituted variously as a registered company, a Section 21 company or as a Trust (GTZ and IDC, 2008). In practice, it is argued that an agency can provide a legal form for establishing a public-private partnership of stakeholders in an area and receive support from a variety of sources. An important benefit is that an agency can be a vehicle “for ensuring that the culture of the organisation promoting economic development is not a bureaucratic culture, but more of a private sector culture which is needed if economic development is to happen” (Khanya-AICDD,

2006, p. 2). Examples of such second wave LEDAs include the Mandela Bay Development Agency established by the Nelson Mandela Metropolitan Municipality in 2004 which has been a successful driver for economic regeneration of the inner city of Port Elizabeth.

The activities of the Cape Town Partnership have been identified as another successful CSP agency in the field of LED (GTZ and IDC, 2008, p. 19; Trah and Wegmann, 2009). This particular agency was established in July 1999 by the City of Cape Town, South African Property Owners Association, the Cape Regional Chamber of Commerce and Industry and other stakeholders to manage and promote the central city of Cape Town. The mandate of this agency is “to develop, manage and promote the Cape Town Central City as a place for all and a leading centre for commercial, retail, residential, cultural, tourism, education, entertainment and leisure activities”. The Partnership does not duplicate or replace the role of the public sector but seeks to add value to public services and existing LED processes by functioning as initiator, coordinator, facilitator and manager of projects (Cape Town Partnership, 2009). Since its establishment the Partnership has “had a wide-ranging and multifaceted impact on Cape Town” (Khanya-African Institute for Community Driven Development, 2006,p. 4) including positive impacts for urban regeneration, new investment, upgrading of cultural and heritage resources; new residential development, increased population of the central city, job creation, BEE and expanded economic growth (Cape Town Partnership 2009).

Assessment

In conclusion, it is important to understand that there is no set formula or foolproof technique for establishing and maintaining a successful PPP or CSP. Christensen and van der Ree (2008, p. 5) argue that sometimes PPPs “can be embedded within existing institutions; in other cases a new local forum or agency may need to be created for this purpose. But, irrespective of institutional form, “the aim of a partnership arrangement is to bring about systematic changes in a region or locality” (Christensen and van der Ree, 2008, p. 5). The core challenges that face partnerships include, *inter alia*:

- The need to heighten awareness in public and private sector of their potential for catalysing LED;
- Lack of capacity – municipal officials often already are overloaded with responsibilities that it is difficult to take another area of expertise;
- Excessive ‘red tape’ and regulations;
- Selection of effective partners, which can be assisted by undertaking a stakeholder mapping exercise;
- The need for good project management of the partnership, both for PPS and CSPs;
- Agreement on power-sharing;
- Need for political support from politicians and local councillors who often lack knowledge and are unaware of partnerships; and

- **Inadequate or non-functioning monitoring systems – essential for partnerships (GTZ and IDC, 2008, p. 32).**

It is argued by GTZ and IDC (2008, p. 23) that if maximised to full benefit in terms of precipitating institutional change, CSPs “have the potential to positively benefit society well beyond short term objectives”. Indeed, some observers consider that given sufficient determination to forge new collaborative opportunities combined with a commitment from both the public and private sector “South Africa has the potential to lead the world in cross-sector partnering and to reap enormous development benefits” (Stibbe, 2008, p. 23), not least for LED.

6. PRIVATE SECTOR PERSPECTIVES

This section provides an overview of the key findings of a total of 30 telephonic interviews which were conducted during March 2009 with leading officials in the private sector business chambers of the AHI. The AHI's objective is to support a market driven economy in conjunction with all role players (AHI, 2009). With its headquarters in Pretoria, the AHI links together a national network nearly 50 chambers which spread across all nine provinces.

Research Survey of AHI Chambers

The survey captured responses from almost two-thirds of the Chamber offices around South Africa. Responses were secured from at least one chamber in each of the nine provinces. These findings provide important information on the perspectives of the private sector on LED and especially on the potential for LED partnerships between the private sector and local government.

Table 2: Provincial Distribution of Respondents on AHI Survey

PROVINCE	NUMBER OF INTERVIEWS
Western Cape	7
Gauteng	4
North West	4
Free State	3
Limpopo	3
Eastern Cape	3
Mpumalanga	3
KwaZulu-Natal	2
Northern Cape	1
SOUTH AFRICA	30

The distribution of sample respondents is shown on Table 2. This distribution reflects broadly the overall geographical pattern of AHI chambers, the largest numbers of which are clustered in Western Cape and Gauteng. All interviews were conducted in Afrikaans and focussed around a set of broad issues around partnerships between the private sector, local government and other stakeholders. Key themes of concern related, *inter alia*, to exploring the working relationship between the private sector and local government; areas of cooperation and joint initiatives; blockages to cooperation; strengths and weaknesses of the relationships; changes over time; and, perceived roles of the respective partners. The material that was collected essentially was of a qualitative nature allowing respondents to 'speak to' or give 'voice' to the issues that were under consideration.

Research Findings

The overall picture of ‘working relationships’ between Chambers and local government is, at best, mixed. Although there is no clear provincial pattern of variation, the responses from KwaZulu-Natal, Northern Cape and Gauteng were generally favourable whereas those responses from Free State were particularly harsh. In total, almost one-third of the Chambers expressed a positive view on the overall state of their working relationship with local government. Some chambers spoke of “very good” (Limpopo), “good” (North West) or “productive” (Gauteng) relationships, “a permanent seat and an opportunity to speak at meetings” (KwaZulu-Natal), “regular meetings with the local provincial manager” (Northern Cape), of talking “to council through an umbrella of local chambers working together” (Mpumalanga) or of the existence of “open communication” between the local chambers and local government (North West). But, several other chambers were much more cautious in their assessment of their working relationship with the local municipality. Examples of such ambiguous responses were that “most effort was from the Chamber’s side” (Gauteng), “on speaking terms” (Gauteng), “had a good relationship but it died a slow death” (North West), “Yes, but not very effective or productive” (Western Cape), and “Yes, after corruption investigation relationship started again” (Western Cape).

Finally, in 13 cases – nearly half of the sample - the responses from local chambers were extremely negative and critical. A selection of the opinions of these negative respondents is as follows:

- “Local government is not interested in working with the Chamber” (Free State).
- “None at all. We only receive invites to functions” (Free State).
- “City Council is falling apart” (North West).
- “Non-functioning municipality” (Eastern Cape).
- “They are not available” (Free State).
- “They are not interested”(KwaZulu-Natal).
- “Not active” (Western Cape).
- “Not at all – chaotic at best” (Western Cape).
- “Local government was placed under administration two years ago” (Mpumalanga).
- “Red tape” (Western Cape).
- “None – people in government are unskilled” (North West).

A similar mixed picture emerges in terms of exploring ‘areas of cooperation’ or of ‘joint initiatives between chambers and local government. Eight respondents indicated that there were certain ‘areas of cooperation’ between the local Chamber and local government variously in terms of community projects, dealing with residents’ concerns, negotiations about future projects and in one case “full involvement in everything” (KwaZulu-Natal). In some cases the areas of cooperation were described as “sporadic” (Gauteng), “chaotic” (Western Cape) or

“not effective or productive” (Western Cape). In only five cases were there any concrete joint initiatives between the private sector chambers and the local council. Among the range of these initiatives were cooperation around a proposed airport and tourism project (Northern Cape), an upliftment programme and retirement village (Gauteng), a tourism project around indigenous flowers (Western Cape) and two instances of infrastructure development (KwaZulu-Natal and North West). For the majority of the respondents, areas of cooperation between the Chamber and local government were either extremely limited or non-existent and joint initiatives none at present. Strong criticism was aired of the multiple difficulties faced by private sector in dealing with local authorities:

- “We tried to get talks going to promote 2010 but local government ignores invitations” (Free State).
- “Not at all. Meetings are held in their mother tongue. They have no business experience and do not want to listen to us” (Limpopo).
- “No they have their own agendas and don’t want to involve us or use the knowledge and skills that the Chamber has to offer” (Free State).
- “Untrustworthy. Corrupt” (Eastern Cape).
- “Don’t listen to us” (Mpumalanga).
- “We had a 2010 soccer forum going but due to politics the project was halted” (Western Cape).
- “No interaction. We had a meeting 13 months ago” (Mpumalanga).
- “Chamber comes up with ideas but nothing happens when Council receives it” (Western Cape).
- “Non-functional municipality” (Eastern Cape).

An examination of these responses points clearly to issues of poor governance as well as the lack of trust between the private sector and local councils.

From the perspective of the Chambers there exist a host of problems which they face in working together with local government and perceive the existence of several blockages that need to overcome in moving forward in any common partnership for LED. Table 3 combines the issues raised as problems in working with local government from the responses received from three provinces – Gauteng, Western Cape and Free State.

Table 3: Chamber Perceptions of Problems in Working With Local Government

PROVINCE	PROBLEMS	CONSTRAINTS
Gauteng	“Very Positive. Everything Works Great”.	“Nil – Cooperation from both sides”.
Gauteng	“Passing the Buck. No one wants to take responsibility. Lack of urgency or understanding”.	“Incompetence. Lack of capacity”.

Gauteng	“Issues with tenders”.	“Lack of understanding by officials. High staff turnover”.
Gauteng	“Service Delivery – growing more demanding each year”.	“Chambers have experience, skills and knowledge but Council does not want to listen”.
Western Cape	“Not direct problems”.	“Government does not listen to business”.
Western Cape	“Local government’s inability to act”.	“The ANC is politically not community driven”.
Western Cape	“Council has political agendas”.	“Politically driven and forgets about the community”.
Western Cape	“Communication, Politics, High Staff turnover”.	“Communication, Politics”.
Western Cape	“Terrible Service Delivery. Bad Management”.	“Political interference in town management”.
Western Cape	“Empty promises. Nothing gets completed. Politically driven council.”	“Politics. Self gain and Power”.
Western Cape	“The people working for local government”.	“Politics”.
Free State	“Local government misuses tax payers’ money. Tenders only go to ANC members”.	“No mutual trust. A lot of members of government are not qualified or literate”.
Free State	“They don’t respond to invites for Chamber meetings. No money available”.	“Us against them. Council is very racist. Lack of service delivery. Council is politically oriented and status driven and don’t care about the town or its people”.
Free State	“Council never available”.	“They don’t show up at meetings”.

The responses from these three provinces are indicative of sentiments expressed throughout the country by the 30 Chamber interviewees. Above all, they underscore the widespread mistrust between councils and Chambers and of Chamber’s

perceptions of major dysfunctional issues around lack of infrastructure delivery, tenders, governance, lack of involvement or common understanding. Such issues necessarily will have to be transcended for viable and sustainable LED partnerships to be forged.

In the wake of such mistrust it is not surprising that when asked to describe the state of the current relationship between Chamber and local authority, only a few of the responses could be described as positive. It is evident, however, that in certain pockets of the country – roughly one-third of the responses - there are reasonably solid existing relationships between local Chambers and Councils. Descriptions ranged from “brilliant” (Limpopo), “friendly” (Northern Cape) to “very professional” (KwaZulu-Natal). Nevertheless, the majority of our responses were extremely disparaging. In almost two-thirds of the sample, negative descriptions were given. A selection of these responses is presented below:

- “Non-existent. They’ve got a Communistic Socialist way of thinking and doing things. We (Chambers) have a Capitalistic approach” (Free State).
- “Terrible” (Free State).
- “Poor” (Free State).
- “Very bad” (Limpopo).
- “Disastrous” (Eastern Cape).
- “Non-existing” (Mpumalanga).
- “Room for improvement – no cooperation” (Gauteng).
- “Not good or positive” (Western Cape).
- “They are ignoring us” (North West).
- “Isolated. We are not given an opportunity to make a contribution to LED” (North West).

An exploration of strengths and weaknesses of the relationship between the private sector Chambers and local councils once again underscores the multiple problems that need to be addressed before synergistic LED partnerships are possible in many parts of the country. In terms of strengths, perhaps the most important responses are those which came from Chambers enjoying good working relationships with their local Council:

- “Trust” (KwaZulu-Natal).
- “Trust” (KwaZulu-Natal).
- “Respect and trust from both sides” (Gauteng).
- “Understanding of common goals” (Gauteng)
- “Open door” (North West).
- “Council has strong leaders – patriotic about the town” (Limpopo).
- “Open Door policy – We attend each other’s meetings” (Western Cape).
- “Individuals in Council who are productive and reliable” (Western Cape)

Such responses confirm that trust, good governance, responsive local leaders and dialogue are important ingredients for a successful partnership for LED between Chambers and local government.

By contrast, the list of weaknesses that were offered in the relationships between Chambers and local governments points to common themes and perceptions.

- “Mistrust from both sides – ignorance on their side” (Free State).
- “Politics and corruption” (Free State).
- “Unavailability of the Council” (Free State).
- “Politically oriented uneducated people in government”(North West).
- “Corruption – lack of knowledge” (Limpopo).
- “Lack of communication and vision” (Eastern Cape).
- “Watery relationship – they want to make all the decisions” (Northern Cape).
- “Communication channels not always clear”(Western Cape).
- “Council can’t make decisions and lack of service delivery” (Western Cape).
- “Communication, trust” (Western Cape).
- “Council is politically driven with history of corruption” (Western Cape).
- “Hard to find designated person to do a job” (Gauteng).
- “Politics and corruption” (Mpumalanga).
- “High turnover of staff. Internal conflict and unapproachable” (Mpumalanga).
- “Trust issues” (Mpumalanga).

Once again, these responses provide a mirror of the several overlapping issues that must be tackled through social dialogue – questions of governance, mistrust, absence of communication channels and lack of service delivery.

Chambers were asked to assess any change over time in their relationships with local government both on a horizon of one and five years. In terms of the five-year horizon for assessment, only 5 respondents indicated that the Chamber-local government relationship had improved during this period. In the best case situation in KwaZulu-Natal the relationship was deemed as progressing “from strength to strength” and in another case was improving as their focus “was on small stuff” (Limpopo). These situations, regrettably, were exceptional. The vast majority of our sample respondents either indicated that relationships were ‘the same’ – in terms of being always negative – or had worsened during the previous five years. Typical responses were “bad to worse” (Limpopo), “same still very bad” (Free State), “worsened – untrustworthy, They are not interested in LED” (Eastern Cape), “worsened – we are in survival mode” (Gauteng), “chaotic – from bad to worse” (Gauteng) and “worsened – empty promises” (North West).

The one year horizon responses were considerably more positive with 16 respondents – more than half of the sample – signalling that relationships were

slowly improving. This finding on a one year improvement in relationships is one of the most hopeful of the survey results as it suggests a potential foundation for future establishment of LED partnerships. The detailed responses often indicated an explanation for the improved relationship.

- “Slowly started to improve – managing to obtain a meeting with the Town Clerk once a month” (Limpopo).
- “Improved 300 percent” (Limpopo).
- “Slightly improved – started to attend some of our meetings” (KwaZulu-Natal).
- “Overall improved but upcoming elections definitely plays a role in productivity” (KwaZulu-Natal).
- “Improved – getting responses from letters” (Free State).
- “Improved trust and communication” (Gauteng).
- “Slowly starting to improve – communication channels starting to form” (Gauteng).
- “Little bit better – new manager not yet corrupted by ANC” (Northern Cape).
- “Improved since the DA took power of council” (Western Cape).
- “Improved – implemented audit system” (Western Cape).
- “Improved communication, involvement and networking”(Eastern Cape).
- “From nothing to new beginnings” (Mpumalanga).

This improvement was not, however, reflected countrywide as the following responses confirm:

- “The positive change at national level gets lost in a network of incompetence leaving no to little change at local level” (Free State).
- “Worsened. Almost no contact. Council is cutting the Chamber out rather than inviting us to help solve problems” (Gauteng).
- “Worsened – we keep trying but no results” (Western Cape).
- “Worsened – with upcoming election, nothing gets done” (North West).

Chambers were asked to identify the most important action that local government could undertake in order to improve the local business investment environment. The most common responses surrounded the need for Council’s to ‘get the basics right’ and improve infrastructure delivery, enhance quality and efficiency of their staff, remove red tape and expand channels of communication with the Chamber. On Table 4 are captured the detailed responses from the Gauteng, Western Cape and Free State chambers. These responses are typical of those received from the other provinces.

Table 4: Suggestions for How Council Can Improve the Business Environment

PROVINCE	RESPONSE
Gauteng	“Work productively with local chamber”.
Gauteng	“Involve management of chambers and communities. Get input from all stakeholders”.
Gauteng	“Look at joint ventures”.
Gauteng	“Improve safety, security and basic services”.
Western Cape	“Have a good working relationship with the Chamber. Create a forum of council and Chamber members. Improve communication”.
Western Cape	“Incentives for investors, tax holidays”.
Western Cape	“Basic service delivery should be in place and properly managed”.
Western Cape	“Employ people who know how to do the job and keep politics out of service delivery”.
Western Cape	“Politics must be taken out of local government and Council run like a business”.
Western Cape	“Remove red tape. Improve administration. Employ skilled people”.
Free State	“Get the basics right. Clean up the town and make it crime free. Improve infrastructure. Go back to school”.
Free State	“They should look after the town and clean it up”.
Free State	“Listen to the Chamber and share information. Have an open door policy”.

Finally, Chambers were asked to define what they considered as the most appropriate roles for both local government and the private sector in LED. Given the above perceptions from the Chambers of the dysfunctional nature of many local governments, the frequent lack of trust and of the absence of communication between Chambers and government, the core findings reflect these perceptions. Although there was a range of responses across the country, the following select responses capture the essential message that was obtained from the different Chambers on this issue. As is evident from the Chambers’ perspective, local government can take on any variant of position from passive recipient of advice to taking on a facilitative or enabling role. A key theme that threads through many of the responses is for local government to undertake actions designed to improve the

local business environment for private investment variously through cutting red tape, maintaining or improving infrastructure, and making available land for development.

- **“Improve administration. Improve and maintain basic infrastructure” (Free State).**
- **“Listen to local business people. Support local business ideas and ventures” (Free State).**
- **“Create an environment where you want to do business” (Free State).**
- **“Do as little as possible except listen to business people and get business people on Council” (Northern Cape).**
- **“Be more in control. Use the knowledge and skills of the chamber” (Eastern Cape).**
- **“Create a friendly environment and make land available for development” (Western Cape).**
- **“Get basic service delivery going” (Western Cape).**
- **“Do strategic planning and not just march in without knowing what is going on” (Western Cape).**
- **“Create an environment where business can grow” (Mpumalanga).**
- **“Get rid of red tape” (KwaZulu-Natal).**
- **“Local government must be the backbone of development and move the community beyond survival” (Gauteng).**

The parallel responses from Chambers on the role of the private sector elicited also a wide spectrum of opinion. The most common responses were linked to ‘doing’ the work of development through job creation, the sharing of business skills and knowledge in order to enhance LED processes, and through the formation of partnerships. A strong theme is that the business chambers possess a set of assets or resources that they can bring to the table and offer to enhance or support the LED process.

A selection of the responses is given below:

- **“Plan together by giving input and through transferring skills and knowledge” (North West).**
- **“Improve the image of businesses and the town” (North West).**
- **“Show council that we are needed. Share ideas and vision with the Council” (Mpumalanga).**
- **“Advisory role of bringing knowledge and experience to the table” (Free State).**
- **“Contribute to skills and education. Talk less and do more” (Gauteng).**
- **“Provide knowledge and skills to Council” (Western Cape).**
- **“Use the Chamber’s combined knowledge and skills for LED” (Western Cape).**

Assessment

In conclusion, these key results from the AHI survey point to signs of opportunity as well as major challenges for the development of LED partnerships between local government and the private sector. The signals of opportunity are best expressed in the improved relationships found over the last 12 months between councils and Chambers. Looking forward, it is apparent that the Chambers can function as a resource and valuable local asset in terms of moving forward with local development processes. A key issue that is highlighted for partnering between Chambers and with Council is that concerning improving the local business environment, including through the cutting of red tape. In order to realise the potential for LED partnership the survey discloses that there is an imperative to foster improved mutual understanding and trust between the potential partners. To a large extent this mistrust is an aspect of the legacy of apartheid that continues to scar the landscape of LED planning in South Africa. The imperative to foster greater local understanding and trust opens up and links back to a wider series of issues around governance and capacity in local government which impact upon the critical delivery of infrastructure and services. Above all, these survey results highlight differences in perceptions about what LED is in South Africa and of how the complex process of business and socio-economic development at grassroots level could unfold and of how it might be strengthened or facilitated.

7. KEY STRATEGIC CHALLENGES

This section provides a synthesis of the key strategic challenges facing LED in South Africa. Fourteen core strategic challenges are discussed below. It should be understood that many of these key challenges are interlinked and co-dependent.

- *National Government to Provide Greater Clarity as to the Meaning of LED*

For several years there has been ‘a battle of ideas’ over the soul and meaning of LED in South Africa (Rhodes University et al. 2006; Lamshead, 2009; Patel, 2009). Put simply, should LED initiatives have a competitive or a welfare focus? It is evident that whilst both approaches – the competitive approach vs welfare approach, pro-growth vs pro-poor; market-oriented vs market critical – are required there has been insufficient clarity or leadership given by national government to local governments in order for them to determine which is the preferred approach (Nel and Rogerson, 2005; Nel and Goldman, 2006; Trah and Wegmann, 2009). Further, whilst there is agreement on the desired outcomes of LED – such as reduced poverty and more jobs – there are considerable differences in outlook between what the role of local government should be in achieving these outcomes. One debate is essentially between those who believe that local government should provide a direct solution through supporting projects for job creation or others who advocate for an indirect solution through creation of an enabling environment (Rhodes University et al. 2006; Rogerson, 2008).

The 2006 DPLG policy framework and 2005 Policy Guidelines point to an important shift in how local governments should approach the achievement of economic growth and poverty eradication. For Van der Heijden (2008, p. 8), there is an implied rejection of the approach of ‘community economic development’ linked to *ad hoc* projects and instead an emphasis on enterprise development and broad-based BEE as central goals for LED. In addition, the notion of local competitive advantage is introduced by drawing from the NSDP. In many respects the 2006 policy framework is an unhappy compromise which offers local government elements of both competitive and welfare focus towards LED. The 2005 Policy Guidelines refer specifically to the divide between first and second economies and make targeted support for the second economy a priority. Overall, in terms of guidance to local government on the balance between a competitive versus poverty focus, national government through DPLG still has not given clear leadership (Cohen, 2009).

As argued by Van der Heijden (2008, p. 12) whilst the current DPLG approach makes clear that LED is not about projects, “the majority of the LED strategies contained in the 2008 IDPs from smaller local authorities are almost entirely project focussed”. In the wake of conflicting signals and lack of clarity of direction from national government it is “not always clear to many smaller local authorities what their planning priorities should be” (Van der Heijden, 2008, p. 12) and of how they

should go about promoting LED (Trah and Wegmann, 2009). In the absence of a clear message filtering from national to local levels of government the consequence continues to be confusion at ground level as to which policy approach should be given preference (Cohen, 2009). Until there is common understanding among practitioners in local authorities about what LED is, limited progress will be recorded.

- *Need for Integration and Closer Cooperation between LED stakeholders and Sector Departments in order to Maximise Impacts*

In Section 4 attention was drawn to the overlapping of roles and responsibilities amongst key LED stakeholders. The need was made clear for closer cooperation between all LED stakeholders in order to avoid the duplication of tasks and to establish complementary roles for different departments as well as for other stakeholders.

Beyond a sharper definition of roles and responsibilities, strategic and sectoral integration remains another essential challenge for moving forward with LED (DBSA, 2008; Lambshead, 2009). Nevertheless, there has been only a slow awakening to the need for an integrated approach to LED with each tier of government playing an effective role. The lack of an integrated approach to the delivery of LED remains a systematic weakness (Lambshead, 2009). LED can be achieved only through the action of developing infrastructure, the establishment of market related skills, support for entrepreneurship and SMMEs as well as the creation of an enabling environment for private investors. For these to be delivered, an essential requirement is for national government to go beyond ‘special projects’ for LED and instead consider LED at the local level as a significant goal and objectives of policies they pursue.

Some progress in intergovernmental relations and LED can be acknowledged. Since 2007 the dti and DPLG have been involved in bilateral discussions and proposal on collaboration for partnership. The National LED Framework enhances and supports the collaboration between the dti and DPLG (Masotja, 2009).. Beyond the dti and DPLG, it is recognised now that several other government departments implement programmes that have direct implications for LED. It has been recognised that most programmes “have traditionally been focused on sectoral interests and with some notable exceptions have not really maximised the opportunities for cross sector collaboration” (DPLG, 2008a, p. 1). For example, the National Department of Agriculture has several programmes which have direct ramifications for LED and should be linked into IDP processes and the Department of Minerals and Energy has prescribed the production of Social and Labour Plans as a prerequisite for the grant of mining rights in terms of the Minerals and Petroleum Act of 2002. The Social and Labour Plan requires enterprises seeking mining and production rights to develop and implement comprehensive Human Resources Development Programmes including Employment Equity Plans, LED

Programmes and processes to save jobs and manage downscaling and closure (see Chhagan, 2005).

Building upon this form of sector integration, the National Joint Programme of Action for LED was proposed in 2008 to involve the departments of agriculture, mineral and energy as well as the dti and DPLG and to form a potential basis for sectoral integration (DPLG, 2008a). Although workshops were held in 2008 to set this initiative in motion, no joint programme has emerged. The major reason appears to be that the DPLG does not have the capacity to drive forward the necessary institutional arrangements for this programme (Mitchell, 2009).

- *Appropriate Scaling for LED*

There is a lack of awareness and understanding of the most appropriate scale for doing LED. LED is about territorial economic development and the international experience points to the fact that the defined territory for LED should be set at the scale of a functional economic area and one that facilitates the creation of trust, cooperation and innovation between all key actors (ILO, 2006, 2008). Likewise, the DBSA (2007, p. 4) emphasizes that economic potential cross-cuts municipal or provincial boundaries which places a premium on the ability to capitalise on non-local relationships and understanding “the role that regional, national, continental and global processes play in shaping local economies”.

It is evident that there is little in current LED policies or guidelines that deals with the scale issue. Instead, as Van der Heijden (2008) points out the implied assumption in DPLG guidelines is that each local area is an insular economy and that the role of LED strategy is to develop this unit. Indeed, it is observed that local “LED officials tend to take a very literal view of ‘local’ as opposed to understanding that their local economy is organically and irrevocably linked to the district, the province, the national economy, and indeed the global economy” (Van der Heijden, 2008, p. 14). As a whole, this sort of thinking strengthens the tendency for the introduction of small project-based interventions rather than wider spatial interventions for LED.

For some observers, this points to a need for a higher-level or ‘regional’ scale for LED interventions because local interventions need to be positioned within a regional framework (DBSA, 2008). In Gauteng Province this thinking is expressed in the logic of planning for the Gauteng City Region. In other research, such as in the Eastern Cape, higher-level LED interventions are reflected in notions of corridor development and value-chain enhancement (GTZ, DPLG and dti, 2008). The dti’s draft RIDS document offers also some useful pointers to the development of ‘regional’ scale interventions through notions of clusters and regional competitiveness, the need for ‘regional growth coalitions’ and for developing regional industrial road maps (DTI, 2006).

Overall, it is apparent that many of the issues that make local LED planning limited in its successes could be addressed either by re-scaling LED or by forging more

integrated and spatially relevant relationships between local, district and provincial authorities in development planning (Van der Heijden, 2008). Nevertheless, this logical solution is often undermined by the lack of communication on LED issues between adjoining municipalities, between municipalities and districts and between districts and province (Lambhead, 2009). To overcome this weakness, one useful suggestion is that it would be more effective for LED practitioners to understand value chains, which are defined as “a supply chain made up of a series of actors – from input suppliers to producers and processors to exporters and buyers – engaged in the full range of activities required to bring a product from its conception to its end-use” (Kula et al., 2006, p. 11). New research by the ILO points to the imperative for combining LED with value chain development in order to strengthen local competitiveness and the integration of SMMEs into markets (ILO, 2007). It is argued that LED practitioners should assess those value chains relevant for their own local areas, and on that basis identify potential opportunities for LED (Van der Heijden, 2008).

- *Reinvigorating the Role of the Provinces*

An important contribution can be made by the provinces in alignment and integration of policies. Provincial governments “are expected to play a leading role in ensuring that economic planning, infrastructure investment and development spending takes place in accordance with the principles set out in the National Spatial Development Perspective” (The Presidency and DPLG, 2005, p. 1). The key tool for guidance, coordination and alignment is the Provincial Growth and Development Strategy (PGDS). It is stated that the cornerstone of an effective PGDS is “a deep and thorough understanding of provincial endowments and assets, development potential (as defined in the NSDP) and constraints” along with the forces shaping development potential, which should be spatially referenced (The Presidency and DPLG, 2005, p. 2). The PGDS represents “the provincial perspective on where and what types of investment should be prioritised in different localities” and as such should reflect national and sector strategies and their implications for geographical investment. Overall, the PGDS is a strategic document and whilst its preparation is not a legislative requirement, potentially it can assume a vital role in ensuring the effectiveness and coordinated delivery of the objectives of the developmental state, not least in its role as alignment mechanism for LED (The Presidency and DPLG, 2005).

In terms of influencing LED, provinces have an important role to play in guiding local governments in the evolution of LED programmes through the IDP processes and more widely in contextualising national imperatives and grounding them within the realities and specificities of each province. The PGDS furnishes an essential linkage between national and local development processes and can assume a pivotal role in influencing horizontal linkages within LED ensuring that development at the sub-provincial level takes place in an integrated manner. The PGDS can ensure that development and infrastructure decisions are not limited to the perspective of a single district but instead are woven together to create a regional economic

development perspective that reflects and addresses local concerns and yet links with national economic planning (Lambhead, 2007). Recent evidence suggests that the 2005 Guidelines issued by DPLG have not always been followed in the preparation of PGDSs (Lambhead, 2009). More specifically, PGDSs “are not often spatially referenced” in particular with reference to settlement patterns and fail to accord sufficient influence to Metropolitan strategies as building blocks for the provincial economy. In 2007 the Minister for Provincial and Local Government drew attention to the need for “more work in the creation of credible growth and development strategies pointing out that only Limpopo, Western Cape and North West Provinces had strategies that could be defined as credible” (Lambhead, 2007, p. 2).

The challenge is thus to reinvigorate the role of provinces in particular through making the PGDS a more powerful influence in LED strategies. Given the absence of a legislative requirement the DPLG could seek to assume a strong influencing role in motivating provinces to produce strategies that contribute more comprehensive and credible guidance to local development processes. In turn these would require a revision of the 2005 guidelines to assist provincial policy makers and consultancies that assist in preparing PGDS by updating these guidelines in respect of post-2005 policy thinking. The PGDS should be an iterative process with on the one hand credible PGDSs providing inspiration to Local and District municipalities for LED planning and on the other hand the PGDS informed by credible LM and DM planning (Lambhead, 2009).

- *Closing the Gap between the Practice of LED in Large Centres and Small Towns*

In Section 4 the chasm was highlighted in the existing LED practice of larger centres and smaller towns and between large cities and poorer provinces (DBSA, 2008; Rogerson, 2008). Large cities are adopting a different practice to LED as compared to that in smaller centres. Importantly, it remains that “LED initiatives in smaller centres tend to be project-based, while those in large centres are increasingly focused on creating appropriate institutional market enabling frameworks” (Van der Heijden, 2008, p. 3). In larger cities the use of the terminology LED is sometimes dismissed because of its negative connotations and instead the language of ‘city development strategies’ is deployed. In large metropolitan areas the focus in LED in practice (if not in name) is on developing a more supportive and competitive business environment, institutional support for competitive sectors or clusters, business retention, removal of red tape, and even consideration of the introduction of local investment incentives. In addition, as larger cities and metropolitan municipalities have established effective LED networks with the private sector these have facilitated a more participatory approach towards strategy development and a focus on the different roles of LED for the private sector and local government.

In essence, larger urban centres are in search of what Meyer-Stamer (2008) calls ‘systemic competitiveness at local level’. By contrast, as a legacy of apartheid, the

huge infrastructure backlogs, low tax base and capacity constraints in many areas results in weaker municipalities seeking to meet only immediate needs in terms of provisioning of basic services (Patel, 2009). Under such conditions, “the general likelihood of pursuing economic development takes a backseat” (IDC, 2009a, p. 3). In most smaller centres LED is mainly concentrated “on increased service delivery, extension of the social grant system, public works and SMME initiatives” (Van der Heijden, 2008, p. 3). The 2006 survey of LED in South African small towns revealed that despite nearly a decade of government encouragement only 48 percent of small towns had developed a defined LED policy, only 56percent had established some form of LED unit and only 12 percent have a councillor with responsibilities for LED (Nel and Rogerson, 2007). In the absence of networks and little interaction between the local authority and the private sector, the local authority interprets its role as participant, rather than facilitator for LED (Van der Heijden, 2008). Accordingly, smaller local authorities as a whole place a much stronger, if not exclusive, emphasis upon ‘participation’ by marginalised communities in LED rather than the private sector. By contrast, in large cities LED departments are making strenuous efforts at outreach towards dialogue and constructing LED networks with the private sector. In large measure this situation is a historical legacy of apartheid as deep divides remain between predominantly white and conservative business interests and the local authority, which are not conducive to partnering for effective LED strategies.

The differential practice of LED in large vs small towns is producing divergent economic growth performance. As the competitive approach of large cities towards implementation of more effective LED offers a more promising path for sustainable economic growth, the divorce in approaches between large centres and smaller towns is contributing further towards reinforcing existing spatial inequalities. The competitive focus for LED is manifest in the metropolitan areas and other cities but outside of the SACN Network this approach is lost and, with only a small number of exceptions, the dominant approach remains that of poverty reduction through job creation initiatives. An important point is there are different perceptions of the practice of LED. Van der Heijden, (2008, p. 4) observes that in larger centres there is a greater willingness of government to work with the private sector. By contrast, in smaller centres LED officials “often see their role as being ‘on the side of the people’ as opposed to the side of formal business” (Van der Heijden 2008, p. 4). Indeed, in smaller centres there is a belief that the comparatively better economic performance of metropolitan areas is the result of structural and resource advantages rather than due to better LED practices and processes. Overall, a greater degree of interaction between LED officials and the private sector encouraging a sharing of ideas and resources would “go a long way towards dispelling this idea, and could be a key factor in getting smaller municipalities to approach and prioritise LED in a more effective manner” (Van der Heijden, 2008, p. 13).

A critical issue in closing the gap is to recognise the limitations of DPLG’s ‘one-size-fits-all’ approach and instead accept the need for a *differentiated approach* towards

‘doing’ LED (Patel, 2009). At the outset, a differentiated approach would acknowledge that not all municipalities will ever be in a position to undertake local development planning (Cohen, 2009). Many local governments lack any meaningful tax base; others are dysfunctional including due to corruption (Madurai, 2009; Sibisi, 2009). Most local governments are simply too busy to focus on economic potential due to the imperatives of addressing basic needs. As argued by the IDC (2009b, p. 4), issues relating to the long term sustainable economic development of communities “were, if not neglected, put on the back-burner”. In addition, in less well resourced areas the private sector is frequently wayward and risk averse so that there is a need for the state or its agents “to excite the confidence of the private sector” (IDC, 2009a, p. 9).

Under certain conditions one vehicle for closing the gap between the practice of LED in large as opposed to smaller centres or less well resourced areas can be through the establishment of Local Economic Development Agencies (LEDAs) (Bartlett, 2009a; IDC, 2009a, 2009b, 2009c). Under the auspices of the IDC, the development agency concept is an approach for generating jobs and wealth in local communities using local mechanisms (IDC, 2009a, p.10). The IDC asserts that “the development agency idea serves as a possible alternative to facilitate economic development within municipalities by providing dedicated capacity and strategic intent, while allowing the existing municipal structures to continue addressing priority basic service provisioning – thereby still meeting their Constitutional and developmental obligations” (IDC, 2009b, p. 4). The LEDAs are targeted to operate in those areas which face huge challenges due to high levels of poverty and underdevelopment such as townships, rural areas, small towns and poorer provinces (IDC, 2008). The Agency and Support Department (ADS) of the IDC “was tasked to advance and leverage the development and job creation potential inherent in various municipal areas, particularly those falling outside the major industrialized centres of the economy” (IDC, 2009a, 2009b). Its mission is “to be a catalyst for sustainable integrated local development in poor provinces, rural areas, townships and other marginalised areas” (Bartlett, 2009a; IDC, 2009c).

Although it is cautioned that the development agency approach “might not be the answer to the problems facing every community” (IDC, 2009a, p. 11), the initial IDC experience with LEDAs has been promising (Multi-Purpose Business Solutions & Impi Business Consultancy, 2007; South African LED Network, 2008; Bartlett, 2009a; IDC, 2009a, 2009b). Overall, the record of LEDAs confirms that “in many cases, local development is best managed and implemented through a dedicated agency, rooted in the local area with a clear mandate and accountability to the relevant sphere of government, focused and with a comprehensive agenda and strategy for development” (IDC, 2009a, p. 17). LEDAs can be one part of a search for a more spatially differentiated approach to ‘doing LED’ and of narrowing the gap between the practice in LED in cities and the less well resourced areas of South Africa.

- *Disseminating Good Practice in LED*

Several shifts have occurred across the first decade of applied interventions and planning for LED (Nel and Rogerson, 2005). In many respects the shifts that have been observed are a mirror of ‘learning by doing’ and in some cases of ‘learning from mistakes’. In further narrowing the gap in practice between larger cities and less well resourced and capacitated municipalities, there is a need to create awareness and disseminate more widely information about what does and does not work in the practice of LED in South Africa.

It is acknowledged that many efforts to support LED “have often failed as projects have not successfully involved and included local people as participants and beneficiaries – often relegating locals to “workers/labourers” rather than owners of initiatives and projects” (IDC, 2009b, p. 1). For the past decade, many South African observers have been highly critical of the limited outputs or successes which have been associated with LED policy (Nel and Rogerson, 2005; Rhodes University et al, 2006). One factor in the limited number of ‘success-stories’ is the near complete absence of any monitoring and evaluation programmes to benchmark and gauge the performance of LED interventions (Rhodes University et al, 2006).

As stressed in Section 4 a key finding from local research on LED is that whilst there are isolated examples of successful LED in small towns/rural areas, the best illustrations of success are generally to be found in South Africa’s largest cities, particularly concerning interventions for supporting SMME development, including of improving the local business environment for the informal economy (Lund and Skinner, 2004; Rogerson, 2006). Although it is sometimes argued that the shortage of LED ‘success stories’ is a result of poor implementation and lack of funding support, it is important to acknowledge that there do exist good examples of successful LED, particularly in terms of promoting clusters and of support interventions for cluster development.

The promotion of joint action, learning networks, and upgrading has been shown to be central for achieving ‘collective efficiency’ and the enhanced competitiveness of clusters (Morris and Barnes, 2004, 2006a, 2006b; Morris et al 2006). The documented experience of a number of clusters, most importantly of learning and cluster cooperation networks, such as the Kwa-Zulu Natal, Eastern Cape and Gauteng Auto Benchmarking Clubs, show the positive advantages of firms cooperating horizontally to learn and upgrade their process manufacturing activities (Barnes and Morris, 1999; Morris and Barnes 2006a, 2006b). In particular, the Durban Automotive Cluster (DAC) represents a solid example of encouraging horizontal and vertical cooperation across the value chain (Morris and Barnes, 2004; Robbins, 2005). Importantly for LED debates, it was funding from the Durban metropolitan government which emerged as the primary source for cluster upgrading. Overall, the DAC is a model of a business-driven process for upgrading in which government support has been a critical element. It is also a model which is potentially replicable in other contexts (Morris et al 2006; Morris and Barnes 2006a).

The emphasis upon clusters engages directly for the first time with the significance of *localised processes* and networks in clusters for local and regional economic development.

The notion of clusters and LED support for clusters need not be confined, however, only to manufacturing activities but also can be applied more widely to support other sectors. In tourism, for example, the planning of tourism routes is a direct parallel of cluster cooperation and involves developing cooperative planning arrangements and relationships between different localities in order for them to collectively compete as tourism spaces (Lourens 2007a, 2007b). Although tourism clusters as routes can operate at a number of geographical scales, route development can be of special importance outside of the metropolitan areas and can furnish opportunities for LED in small towns and rural areas (Lourens 2007a, 2007b; Rogerson, 2007). The competitive clustering of activities and attractions in less developed areas, stimulating cooperation and partnerships between communities in local and neighbouring regions with the objective of stimulating tourism-led LED is best exemplified by the operations of the Midlands Meander in KwaZulu-Natal (Lourens 2007a, 2007b). Spatial networks here are constituted by ‘packaging’ rural tourism products into inclusive and coherent routes through the use of themes and stories which help to move the tourist around geographically dispersed attractions. Beyond tourism, the opportunities for using the principles of cluster development potentially can be applied to activities such as arts and crafts and ‘creative industries’ as a whole.

Overall, therefore, whilst there is growing consensus about what does NOT work in LED (such as government-led ad hoc projects as in LED Fund) there is much less appreciation of ‘good practice’ in LED. Accordingly, there is a need for greater dissemination of ‘good practice’ and raising awareness of what does work in LED, including:

- a shift in role of Local Government from intervention to enablement;
- an increased focus on ‘soft’ infrastructure and role of enabling technologies rather than traditional hard infrastructure;
- the importance of clusters to support competitiveness;
- a focus upon improving locational advantage; and
- a shift towards market-based support structures (Van der Heijden, 2008, p. 3).

Advocacy for good LED practice is a function that can be taken on by several key LED stakeholders, including DPLG, the dti and SALGA (Cohen, 2009; Masotja, 2009).

- *Challenge of Maximising Potential for Partnerships in LED*

Local government driven LED has had only limited involvement with non-state actors. As was shown in the findings of the AHI survey in Section 6 often the private

sector either has been left out or chosen not to be involved as a result of the mutual suspicion that exists between public and private sectors which makes dialogue between the two groups extremely difficult. Mistrust is premised on divergent ideological beliefs and correspondingly different priorities (Hadingham, 2008, p. 54). Essentially, the public sector believes business is anti-poor and business believes that government is welfarist and anti-profit in its outlook; both groups speak different languages (Hadingham, 2008). Private sector apathy towards local government-led LED initiatives “has been further enhanced by its experience of local government bureaucracy, red tape and unproductive ‘talk shops’ where much is promised but little of benefit to the private sector is actually produced” (Lawrence and Hadingham, 2008, p. 44). The inherent tensions between public and private sectors are compounded by the need to transcend the apartheid legacy of a largely white owned and controlled private sector and predominantly black public sector (Patel, 2009). A core problem, as identified by Rucker and Trah (2007, p. 47), is a need to construct “the necessary ‘soft factors’ of cooperation – trust and social capital” which are considered essential for effective cooperation between state and non-state actors. Another difficulty is the weakness of South African business associations which is a major impediment to effective LED and the consolidation of a constructive co-operation between the public and private sector.

A central aspect of LED is partnerships that are forged between local government, business, NGO’s and communities (GGLN, 2008, p. 81). As argued in Section 5 there can be several benefits from promoting partnerships for LED. Currently, one important issue for greater partnership between local government and the private sector concerns ‘red tape’ or local regulatory reform. As Hindson et al. (2009, p. 1) point out “Addressing red tape is an important building block of a local economic development initiative”. Opportunities to facilitate investment are missed often as a consequence of the low priority which is given to ‘local business environments’ and especially to what is colloquially termed ‘cutting red tape’ (DPLG, 2008b). Some researchers have suggested that the term ‘red tape’ reduction may have negative perceptions among municipal officials and therefore it might be more appropriate to adopt the language of ‘business process improvement’ (Silimela Development Services, 2008, p. 2). Irrespective of preferred terminology it is recognised that many red tape problems emerge as a result of poor communication and lack of mutual understanding between public and private sectors (Silimela Development Services, 2008).

Local governments tend to concentrate overly upon aligning local planning processes with provincial and national guidelines resulting in a tendency to overlook the potential ‘quick wins’ that might arise from reforming the demand side of the local business environment (Christianson, 2008). Used at local level, the business climate survey is an important and effective tool for stimulating and sustaining regulatory and administrative reforms (Kaufmann et al. 2008). The business climate survey can identify, reveal and prioritize “in an easy-to-understand way the regulatory and administrative bottlenecks to private sector development” (Kaufmann et al. 2008, p. 1). It is evident that the identification of local regulations

that can and need to be reformed revolves around implementing the LED concept of partnership between local government and local business (Christianson, 2008; DPLG, 2008b; Silimela Development Services, 2008). Accordingly, local government “needs to engage, honestly and systematically, with its own private sector in order to work out exactly what the hurdles to local business development area, which of them can be ameliorated at a local level and then to work out a reform programme” (Christianson, 2008, p. 2). In a partnership with its LED stakeholders DPLG (2008b) recently issued a useful guideline document to energise ‘red tape’ reduction. In addition, it has been a lead partner in the formation of a forum which is to drive the improvement of local business environments (GTZ, 2009).

In final analysis, it is necessary to understand that there is no set formula or foolproof technique for establishing and maintaining any successful partnership for LED. The uneven experiences of LED partnerships underline the conclusion that the building and operation of such partnerships is “rarely easy” and in South Africa partnerships are “still far from reaching their full potential” (Stibbe, 2008, p. 23).

- *Need for a Higher Profile and Professionalisation of LED*

It is argued by several analysts that LED is “not taken seriously” by many local governments and instead relegated to a ‘backroom function’ (Murray, 2007) or minor issue on the agenda with no political importance (Nel, 2009). Certainly, the limited success of LED projects with a welfare focus undermined the credibility and significance attached to LED by local authorities (Trah and Wegmann, 2009). As a result of the limited success of LED in South Africa the career path of LED lacks credibility with the consequence that it is associated with low level staffing and high turnover, especially outside the larger metropolitan areas and cities. In many municipalities therefore the practice of LED becomes either a ‘dumping ground’ for ineffective officials or only a stepping stone for competent local government personnel because of constrained career prospects (Nel, 2009).

Overall, there is an *absence of professionalism* in LED due to its poor career prospects such that LED does not attract or retain the sort of officials who might be able to combine business skills as well as public sector skills (Nel, 2009; Trah and Wegmann, 2009). The status accorded to the function of LED varies widely between different municipalities with implications for access to resources for staffing. Only rarely is LED located in its own department often operating within a wider unit such as planning and community services. Commonly, “the delivery of basic services is given priority over LED activities in terms of political support and access to resources” (Lawrence and Hadingham, 2008, p. 43). This situation is the result of a lack of understanding of the importance of LED as well as of what can be done and general pessimism around the limited successes observed in LED especially in small towns. It is argued that LED should be given the prominence it deserves in local government with issues of economic development becoming “central to the development agenda of a locality” (Lawrence and Hadingham, 2008, p. 45). An

important step forward towards professionalizing LED would be to acknowledge that LED should be understood as a *cross-cutting issue* by municipalities.

- *Building LED Networks and Sustainable Knowledge Platforms*

The international LED experience points to the need to build expert networks and sustainable knowledge platforms in order to support competitiveness and turn local endowments into regional and national competitive advantage. The linking of these networks “facilitates a more structured sharing of tools, documentation of good practices and development of guidelines” (Salazar-Xirinachs, 2008, p. v). The outcome is organizational or institutional learning which is an essential base for strengthening LED (Ruecker and Trah, 2007, p. 78).

The DBSA (2008, p. 4) stresses the need to enhance institutional strength for LED through building associational networks. In addition, Van der Heijden (2008) draws attention to the importance of establishing strong LED networks for successful LED. The South African LED Network, founded in 2004, is one promising knowledge platform which was established with support of the GTZ LED project. As of March 2009, the LED Network has 317 members. Among its objectives, the South African LED Network, seeks to promote “discussion and exchange between the various kinds of LED practitioners to build a body of knowledge of what works when, which approaches can be used and how to mobilise other local stakeholders to actively engage in LED processes” (Hadingham, 2008, p. 55). It is stated that the organization “is dedicated to the promotion of good practice and dialogue in local economic development, as well as connecting and networking practitioners” (South African LED Network, 2009). Currently, this network is seen as a model for wider rollout to support LED in other parts of Africa (Trah and Wegmann, 2009).

Other existing knowledge platforms include that provided by the Learning Monitoring and Research Facility (LMRF) programme which is EU funded through the Gijima programme. The LMRF represents a “knowledge centre that generates, analyses and disseminates knowledge and assists in building up practical experience relevant for sustainable local economic development”(Patterson, 2008, p. 25). This facility is planned to evolve into an independent knowledge centre focussed geographically upon expanding LED learning in KwaZulu-Natal (Patterson, 2008). Established in 2006, during 2009 the LMRF is planned to shift from public funding to a model of mixed funding.

The importance of developing these knowledge centres or platforms is to provide the foundation for high level learning and capacity building which must encompass both private sector associations as well as groups of local consultants who are contracted to develop LED strategies, projects and implementation plans (Rucker and Trah, 2007; Lawrence and Hadingham, 2008). An important challenge remains that of strengthening formal sector private institutions, such as business chambers and professional associations, in order “to assist them to better define, understand and manage their mandate, and to build the necessary administrative and

management capacity to do so” (Ruecker and Trah, 2007, p. 38). A parallel high level capacity challenge is to better train or capacitate the network of private sector trainers involved in supporting municipalities in LED. It is significant that implementation of the LED Qualifications Framework developed by DPLG is currently constrained due to the lack of appropriate training providers.

The training of consultants is another high level capacity challenge. It is argued that many consultant-driven strategies are desk based rather than participatory exercises and that by capacitating consultants the application of participatory and inclusive LED approaches will be assured. Research on the role of consultants in the Gijima projects in KwaZulu-Natal points to several quality shortcomings in relation to the consultancy reports that were submitted including poor interpretation of existing statistics, limited contextualisation of the implications of statistics for local institutions and little understanding of longitudinal economic trends (LMRF, 2008, p. 4). Overall, the key policy challenge is to reinforce the importance of developing and supporting LED Networks and of sustainable knowledge platforms in order further to enhance a systemic approach towards high level capacity in LED.

- *The Capacity Challenge of Training Professional Staff and Careers in LED*

The past 5 years have witnessed enormous initiatives by the EU, GTZ and other stakeholders to improve capacity through training (Ruecker and Trah, 2007; Xuza, 2007a; Patterson, 2008; Lamshead, 2009). Although the jury must still be out on the long-term impacts of these interventions there are promising signs of positive outcomes alongside certain disappointments. Against this, however, are signals that the fruits of other aspects of the large-scale capacity building initiative are beginning to appear (Lamshead, 2009). These fruits are manifest in the appearance of a more pro-active group of LED officers able and willing to conduct a dialogue with the private sector about the appropriate directions for LED (Lamshead, 2009).

Nevertheless, in certain parts of the country (especially poorer provinces and small towns), capacity gaps remain. Limited capacities in LED staff has had the consequence that many smaller “municipalities focus on compliance with statutory requirements rather than attempting to proactively manage economic opportunities that could have widespread local impact” (Lawrence and Hadingham, 2008, p. 45). A 2007 survey of Local and District Municipalities in Mpumalanga conducted to assess the extent to which LED was embedded in local policy and practice concluded disappointingly that LED processes “are poorly embedded in the majority of municipalities” (GTZ, 2007, p. 6)” and that the “basic preconditions for LED process are not in place in the majority of municipalities” (GTZ, 2007, p. 7). Likewise, a recent analysis in Limpopo points to the lack of qualified technical staff (especially town planners), the absence of competence to review building plans and zoning applications and the absence of technologies that improve LED potential (Kaiser Associates, 2007). In poorer municipalities the existence of low skills and lack of qualified technical municipal staff results in an unhealthy if not exclusive

reliance on private consultancies and of consultant-driven strategies for LED. As the municipality lacks capacity to monitor the quality of these strategies, there is a cumulative trend towards the production of low quality LED plans marked by a project focus, unrealistic targets, an inability to identify the drivers of local development and poor implementation (Van der Heijden, 2008).

These findings point to the continued existence of training gaps that need to be addressed (Trah and Wegmann, 2009). A cadre of trained and committed LED experts at local level and in Universities is lacking. Although larger cities can draw on a wider talent pool, smaller centres have no such staff pool with the consequence that an urgent need exist to train LED officials and to expose councillors to this concept (GGLN, 2008, p. 82). “The quality and qualifications of personnel in key LED portfolios and the inability of incumbents to negotiate and strategise with the often intimidating private sector are big stumbling blocks to the effective implementation of LED initiatives” (Lawrence and Hadingham, 2008, p. 44). At the very least, local government officials must be capable enough to negotiate and strategise with the private sector around common interests.

A core challenge is the uneven or spotty character of the training landscape. Certainly, the scaffold provided by the LED Qualifications Framework at National Qualifications Framework (NQF) Levels 4, 5 and 6, “should result in the sound training of LED practitioners to provide them with the necessary knowledge and skills required to be successful LED facilitators and to provide them with a learning/career pathway in LED” (Patterson, 2008, p.20). The DBSA Vulindlela Academy delivers training courses in LED to local government and works in close cooperation with DPLG, National Treasury, SALGA, LGSETA and other stakeholder institutions (DBSA, 2009). In addition, during 2009 new training offerings are available through Durban-based MXA (MXA Associates, 2009) and the LED Practitioners’ Network. Apart from these service providers there is an ‘information gap’ as they are only limited regular training courses accessible in LED for municipal officials in terms of NQF level 5.

At higher more advanced levels of training, there are further gaps in the institutional training landscape (Trah and Wegmann, 2009). In part, this can be explained by the fact that capacity shortcomings in LED staff are not merely confined to municipal scale but are manifest in erosion of high level professional staff. In Universities there are few LED researchers and only limited direct course offerings in LED (Rogerson, 2008; Lamshead, 2009). Further, in departments of national government there are further capacity shortcomings as a result of staff turnover at both DPLG and the dti (Trah and Wegmann, 2009).

- *Build an Effective Business Service Sector to Enhance Local Competitiveness*

The competitiveness of local economies is increasingly judged by the “existence of private and public support institutions that provide a range of services” to enhance LED (Rucker and Trah, 2007, p. 66). In the international experience, the

terminology of Business Development Services (BDS) refers to a wide range of services used by entrepreneurs to become more productive, to help them operate efficiently and to grow their businesses (Miehlbradt and McVay, 2003; Waltring, 2006). As a whole, BDS aims to help enterprises (especially SMMEs) overcome barriers to increased profitability and competitiveness by improving their productivity and access to markets (Miehlbradt and McVay, 2003; Waltring, 2006). From the 1970s national governments began to subsidize the delivery of SMME support services of various kinds, including credit and of BDS services such as business and technical training or assistance with identifying and accessing new markets (Dawson, 1997). Overall, however, the record of international experience of government-led provision of BDS services has been viewed in negative light. Out of the international disappointments and learning associated with government-led provision of BDS occurred a ‘paradigm shift’ in BDS support provision (Miehlbradt and McVay, 2004).

At its heart, the *new market development approach* focuses upon the development of effective markets for private sector providers to offer services in order to help enterprises develop and compete (Gibson, 2000; SDC, 2000; Bear *et al*, 2003; Waltring, 2006). The core challenges for this new paradigm for BDS development, argues McKee (2004, p. 25), are to provide services on a cost-effective basis, to be sustainable, to reach significant scale and impact. The record of international experience has seen an increased emphasis on the development of commercial BDS markets (Miehlbradt and McVay, 2003). This change represents a move from supply-driven state (or donor) subsidised services and support for individual organizations towards developing more effective market environments that facilitate the delivery of demand-led services. The market development approach seeks to address the causes rather than merely the symptoms of business failure (Bear *et al*, 2003). In recent years, argues Waltring (2006, p. 7), “BDS market development has moved from a focus on services for SMEs to becoming a mainstream approach for finding market-based solutions to the problems of targeted sections of the private sector”. Indeed, the current debates around ‘making the markets work for the poor’ has been strongly influenced by lessons learned from the BDS concept within the evolving market development scholarship (Eiligmann, 2005; Waltring, 2006).

In discussing public-private sector partnerships in South Africa a key question is whether the only parties to be brought to the table are government and private sector enterprises. In upgrading of clusters a vital role is assumed by BDS firms, benchmarking companies or industrial facilitators “all of whom are supposed to provide the actual support for industrial restructuring, cluster facilitation and network learning in order to ensure that firms either individually or collectively make the transition towards the frontier of international competitiveness” (Morris *et al*. 2006, p. 201). These firms are part of the private sector but form a separate group from those enterprises that are to be supported or upgraded. These BDS firms are essentially conduits of policy creating a link between the state and the private sector. They are “the third arm of the triangle linking the state’s enabling

environment and supportive financial structure and the manufacturing enterprises” (Morris et al. 2006, p. 201).

Overall, it is argued that national government has neglected the issue of how to build an effective business service sector to assist enterprises to achieve necessary competitiveness. Indeed, Morris et al (2006, p. 217) assert that supporting “the private sector and creating public private partnerships requires the government to recognise, support and reward the important role of the business service sector in delivering the sorts of direct interventions to raise the competitiveness levels of industry (or tourism) that government requires but is actually incapable of providing”. Ruecker and Trah (2007, p. 66) point to a different challenge that service markets for the provision of Business Development Services are often weak in small centres and rural areas which highlights the challenge of building up the private markets to supply business services in these areas.

- *The LED Funding Challenge*

Currently, there exist a range of possible funding sources for LED activities which includes donor funding, the DBSA LED Fund, national sector support from various government departments, the Municipal Infrastructure Grant, the Neighbourhood Development Partnership Grant, local government own revenue and equitable share funds (Patterson, 2008, p. 10-11). Nevertheless, whilst arguments that LED is an ‘unfunded mandate’ no longer have credence, there does remain an issue of limitations in access to development finance, especially outside the more well-resourced environment of the metropolitan municipalities, some of which can access finance from commercial markets (DBSA, 2008, p. 3). In particular smaller municipalities frequently struggle to access available sources of funding “due to internal capacity constraints whilst their credit rating and weak revenue base bar them from accessing standard concessional loan instruments” (DBSA, 2008, p. 3). The lack of networks reinforces a lack of awareness in poorer municipalities of the range of funding opportunities that are available to them (Cohen, 2009). This lack of awareness is worsened by the insufficient advocacy on available funding mechanisms, such as those through the dti (Masotja, 2009). This situation suggests an important advocacy role for the dti in improving access to available funds for smaller and poorer municipalities (Masotja, 2009).

As is evident, in many poorer districts and local municipalities LED is not embedded in local practice (GTZ, 2007; Kaiser Associates, 2007). This situation is reflected in the lack of funding allocated to LED by municipalities. As Patterson (2008, p. 11) observes, whilst financial support can be accessed from an array of sources, “a key difficulty is that the municipality or ‘local development agency’ often lacks adequate locally available funds and competencies to drive the LED process independently”. Furthermore, a case may be made that the funding sources which are accessible at local or national level are, to a large extent, ‘insecure’. In particular, Patterson (2008) maintains that generally “LED has no secure funding sources and often relies on charitable donation and public grants” with the

consequence that local and international NGOs and donors are of great significance to local authorities for accessing or making available funds for local development initiatives.

New initiatives launched in 2008 by the DBSA through its Local Economic Development Fund are seeking to finance LED in two priority focus areas:

- Localities with demonstrable or latent economic potential which lack the capability and revenue base to access the commercial and grant funding that would enable them to capitalize on the potential within the area;
- Localities with demonstrable or latent economic potential which have a strong enough fiscal base to raise commercial loans but lack sufficient institutional capacity and thus need development solutions support to enhance their critical role in the South African economy (DBSA, 2008).

Finally, in funding for LED, sight must not be lost of the potential role of the private sector. The building of trust and of partnerships with the private sector offers a critical resource which must be tapped more extensively for the funding of LED, especially outside of the major cities.

- *Need for Enhanced Data in Understanding Local Economies and for LED Planning*

A core challenge for LED in South Africa is to improve the quality of local level data in order to enhance understanding of local economies and the identification of local competitiveness. Good local level data is a *sine qua non* for LED and especially for the identification of the comparative and competitive advantage of localities (DBSA, 2008). Further, ensuring a steady flow of reliable information is vital for assisting LED decision-making (Lawrence and Hadingham, 2008, p. 44). Yet, typically, in 2008 IDPs most local authorities included an economic profile of their local area based on the 2001 Census which is not only outdated but also does not contain any meaningful local scale economic data since it is largely concerned with the position of individuals not enterprises (Van der Heijden, 2008, p. 16).

In many respects the availability of official local level data for planning purposes has deteriorated since 1994. In many sectors, such as manufacturing, it can be argued that the quality of available spatial data has declined since the democratic transition. Certain formerly regular data series, such as the manufacturing census have been abandoned. For priority economic sectors such as tourism, creative industries, or craft, there is almost no official data on a spatially disaggregated basis which might inform the identification of competitive advantage and enhance LED planning with respect to these critical sectors. Noting the poor socio-economic data for LED planning, the DBSA (2008, p. 3) observes that “most localities have yet to adequately map their competitive and comparative advantage whilst the data analysis underlying the National Spatial Development Perspective (NSDP) still needs localisation and concretization”. The weakness of local data threatens the

credibility of scenario-building or LED strategies that emanates from 'data mining' processes and use of planning instruments that are 'research light' and do not involve the undertaking of original research. A collective responsibility exists across all levels of government (especially of Statistics South Africa) for gathering improved data that can be used for monitoring local economies and defining competitive advantage.

Overall, it is evident that a key future challenge for LED in South Africa is to address the serious deficiencies in existing spatial data sets in order to inform and enhance local level planning. Improving the range and quality of data for local level planning is a major challenge that faces all LED stakeholders in South Africa. In the absence of good data municipalities are forced to use qualitative rather than quantitative planning instruments. One suggestion in moving forward is to potentially explore through Treasury the possible development of local economic models based upon municipal expenditure (Lambhead, 2009). Another suggestion is that LED officials require more effective analytical tools that focus on "the real economic challenges such as accurate economic data and value chain analysis" (Van der Heijden, 2008, p. 16).

- *The Challenge of the Second Economy*

One of the most damning aspects of assessments on the first decade of national government support for SMMEs is that government neglected almost entirely the needs of informal enterprise and of micro-enterprises. The micro-enterprise sector is highlighted now as a special focus for national government support programmes under the revised 2006 Integrated Small Enterprise Development Strategy. Ruecker and Trah (2007, p. 40) stress the need for better use of local resources by local communities and of the importance of emerging entrepreneurs as target groups.

An effective LED policy for dealing with the informal economy or more broadly the challenges of the second economy, however, still remains undeveloped and unclear. Conceptually, the notion of evolving second economy strategies which are 'separate' from first economy strategies is a misnomer (Sibisi, 2009). Although criticism can be directed at the concept of the 'second economy' as an all-encompassing notion that includes a number of different employment statuses, the concept has rejuvenated interest in what national government has done or can do for those working in the informal economy. The debates about the second economy highlight the fact that the most critical support interventions made in support of the informal economy often have been those made by *local* governments through for example, changing regulations, assistance to urban agriculture, or market development rather than through national government interventions (Lund and Skinner, 2004; Devey et al 2006).

The DBSA (2008, p. 3) argues that "government and LED practitioners are still grappling with the challenge of understanding and developing appropriate strategies to address the informal economy and associated livelihood strategies that

often buck against national planning frameworks and paradigms”. Support and strategy development for the second economy raises the issue of how communities can more directly engage with the LED agenda and with LED processes in order to access and influence LED debates. The building of communities is considered at the heart of resolving the dilemma of the second economy (Patel, 2009). Of crucial importance is the need to leverage support for ‘community empowerment’ and to unleash local creativity and innovation. The DPLG’s current advocacy of expanding local multipliers to assist the second economy is a logical policy foundation for future support for the second economy. Progress with interventions to support the second economy includes for example initiatives linked to the extension of social grants, the development of the Expanded Public Works Programme and of initiatives to establish value chains in poorer areas as a means of keeping money in circulation in those areas before moving back to the ‘first economy’ (Lamshead, 2009; Patel, 2009). Overall, challenge for LED policy-makers and practitioners in South Africa is to ensure that the issue of the second economy or support for survivalist informal enterprise must not ‘fall off the policy agenda’ with a re-balancing of LED towards a focus on local competitiveness rather than direct poverty alleviation.

8. SUMMARY AND CONCLUSION

This report has discussed a number of themes.

In Section 2 the report opened by providing clarification of international debates concerning the meaning and significance of LED. It was argued that LED approaches emerged in the context of the developmental challenges posed by globalization and as a challenge to traditional ‘top down’ approaches to development planning. Internationally, whilst there are different definitions of LED, there is a common strategic emphasis upon a defined territory, the need for participation and social dialogue, locally-owned or managed processes and the mobilization of local resources for competitive advantage. Further, whilst LED has an economic focus at its heart, LED is targeted ultimately to attaining a sustainable development pattern, one which both accommodates and reconciles economic, social and environmental issues.

In Section 3 a brief overview was given of the policy environment and of the progress of LED in South Africa since 1994. It was observed that in reviewing the lists of roles that various stakeholders define for themselves in relation to LED processes, there is a striking degree of the *duplication of tasks* between different LED stakeholders. For the two major government departments involved in LED – namely DPLG and DTI – it is apparent that there is a considerable degree of overlap and thus an urgent need for greater coordination. The active involvement of other stakeholders, such as DBSA or SALGA, once more introduces another layer of duplication of several of the tasks which are taken upon by DTI and DPLG.

In Section 4 the focus of discussion turned from issues of policy and of stakeholder responsibilities to questions of LED practice. The historical evolution of LED practice was chronicled, drawing attention to the disappointments associated with a project based approach to LED. In cities, however, an alternative LED practice has evolved and centred upon the building of systemic competitiveness. What exists in the landscape of LED practice is a spatially differentiated picture. Sharp contrasts exist in LED practice between large cities with their focus on competitiveness, secondary cities with a focus on economic readjustment and LED practice in small towns which is limited or laggard. These geographically differentiated practices in LED are contributing to widening spatial inequalities in particular because of the successful nature of LED practice in large cities.

In Section 5 attention turned to analyse the role of partnerships in LED. It was argued that the building of partnerships is an essential aspect of successful LED practice and that there were a host of benefits to the adoption of partnerships. Although different forms of partnerships can be discerned, the potential benefits of the less formalized Cross-Sector Partnerships were highlighted. Examples of several

different kinds of partnership were provided. Overall, it was concluded that there is no magic formula for establishing and maintaining successful partnerships. Key ingredients of successful partnerships, however, relate to the building of trust and dialogue between LED partners. Considerable optimism surrounds partnerships in LED with some analysts concluding that given a commitment from both public and private sectors, that South Africa potentially could lead the world in cross-sector partnering for LED and reap enormous accompanying development benefits.

In Section 6 the core findings were presented of a survey undertaken during March 2009 with 30 AHI Chambers across South Africa. The results of the AHI study disclose a number of issues that need to be addressed in terms of moving forward with the notion of LED partnerships. The survey pointed to the existence of considerable mistrust between the private sector chambers and local government. One signal of opportunity was that the survey found a marked improvement in relationships over the last 12 months between councils and Chambers. A core issue that was highlighted for partnering between Chambers and with Council is that concerning improving the local business environment, including through the cutting of red tape. In order to realise the potential for LED partnership the survey demonstrated a need to foster improved mutual understanding and trust between the potential partners.

In Section 7, a series of fourteen key strategic challenges that face the future development of LED in South Africa over the next decade have been isolated. These challenges pertain, *inter alia*, to:

- The imperative for national government to provide greater clarity as to the meaning of LED, especially to guide small town and poorer municipalities;
- The need for greater integration and closer cooperation between both LED stakeholders and sector departments involved in implementing LED;
- The appropriate scaling of LED;
- Re-invigorating the role of Provinces in LED;
- Closing the gap in LED practice between that in large cities on the one hand and in small towns and poorer municipalities on the other hand;
- The need to disseminate 'good practice' in LED;
- The significance of improving the profile of LED and for greater professionalisation of LED;
- The imperative to maximising the potential for LED partnerships between private and public sector;
- The vital importance of building LED Networks and of sustainable knowledge platforms as a means to enhance high level systemic learning;
- The capacity challenge of training staff and of careers in LED;
- Building an effective private sector business development services sector to enhance local competitiveness through benchmarking and the upgrading of clusters;
- Addressing the financing challenges of LED, especially for less well-resourced municipalities outside of the major cities;

- Improving economic data for understanding local economies, identifying competitiveness and for enhanced LED planning; and,
- Appropriately addressing the needs of the second economy.

Throughout the report a number of proposals or recommendations have been highlighted implicitly and explicitly for taking forward LED over the next decade. These proposals link to the identified key strategic challenges as outlined in Section 7.

- It is proposed that national government take the lead in making clear the balance between a competitive and welfare focus for LED. A clear message must be transmitted on the meaning of LED in order to guide the activities and planning in especially small towns and less well-resourced municipalities.
- It is proposed that a process of cooperation and coordination take place among key LED stakeholders – DPLG, DTI, DBSA, IDC, SALGA – in order to define a set of complementary roles and responsibilities in LED and avoid the duplication of tasks. In addition, there is a need to revive and re-energise the National Joint Programme of Action for LED in order to support sectoral integration for maximisation of LED impacts.
- It is proposed that DPLG and DTI together undertake a review of the most appropriate scale for ‘doing’ LED and improve the existing levels of communication between local, district and provincial authorities.
- It is proposed that the Guidelines relating to the preparation of Provincial Growth and Development Strategies be reviewed and updated so that the PGDS should be an iterative process with, on the one hand, credible PGDSs providing inspiration to local and district municipalities and on the other hand that PGDSs be informed by more credible local and district LED plans.
- It is proposed that the DPLG reconsider its current ‘one-size-fits-all’ thinking in terms of LED practice and instead accept the need for a more geographically differentiated approach to LED which would acknowledge that not all municipalities are in a position to undertake LED. In closing the gap between the systemic competitiveness approach driven in large cities and LED activities in small towns or poorer municipalities one useful step would be to promote greater interaction and sharing of ideas between LED officials such as to encourage smaller municipalities to approach and prioritise LED in a more effective manner. Further, a critical monitoring of the role of LEDAs as a potential vehicle for facilitating LED in areas facing huge challenges of high levels of unemployment and poverty needs to be undertaken.
- It is proposed that key LED stakeholders be encouraged to assume an advocacy role for the dissemination of ‘good practice’ for enhanced competitiveness in LED. Among key elements of good practice that can be highlighted from local (and international) experience are a shift in the role of local government from intervention to enablement; an increased focus on

- ‘soft’ infrastructure and role of enabling technologies rather than traditional hard infrastructure; the importance of clusters to support competitiveness; a focus upon improving locational advantage; and, a shift towards market-based support structures.**
- **It is proposed that in order to achieve a greater professionalization of LED that awareness be raised of the importance of LED for local governments. Local governments must be made aware that LED should move from the backburner to assume a central position in the development agenda of localities. In so doing, awareness needs to be heightened of understanding LED as a cross-cutting issue.**
 - **It is proposed that in order to build the ‘soft factors’ of cooperation – trust and social capital - which are essential for successful LED partnerships between private and public sectors that ‘quick wins’ be sought through promoting vigorously the need to improve local business environments and the reduction of red tape. A process of addressing the widespread mistrust between public sector and private sector can be enhanced through DPLG energetically driving the improvement of local business environments.**
 - **It is proposed that the importance of building LED Networks and of sustainable knowledge platforms be recognised as contributing further to enhance a systemic approach towards high level capacity in LED. International donors can be encouraged to continue to play a crucial supportive role in the support and partial funding of these networks and knowledge platforms.**
 - **It is proposed that the existing high levels of support and priority which is attached to training for LED officials and the development of capacity in LED be retained and strengthened in order that local government officials be capable enough to negotiate and strategise with the private sector around common interests. Further support is required also for the building of a national network of appropriate trainers for roll out and implementation of the LED Qualifications Framework.**
 - **It is proposed that national government recognize the role and significance of building an effective business service sector to assist enterprises to attain necessary competitiveness. This will require recognition, support and appropriate reward for the significant role played by the business service sector in delivering the sorts of direct interventions to raise the competitiveness levels of enterprises in industry or tourism that government requires but is unable to provide. Another linked issue is to support the development of service markets for the provision of Business Development Services in order to ‘make markets work for the poor’ especially in small towns and rural areas.**
 - **It is proposed that a critical review be undertaken of the current state of financing for LED in South Africa with due consideration of the conditionalities attached to current grants and to whether current funding frameworks are aligned with national spatial development objectives and for achieving the economic revitalisation of localities and regions.**

- **It is proposed that a national review be undertaken of required data for local economic planning and of roles and responsibilities of local, provincial and national government in achieving a radical improvement in the existing state of weak local level economic data.**
- **It is proposed that national government review and prepare guidelines for dealing with the informal economy and other associated strategies that fall outside national planning frameworks and paradigms. Although it is important to ensure that LED has a primary economic focus it is essential that good practice be developed and disseminated around ‘the second economy’ with due acknowledgement of the fact that the fortunes of the ‘second economy’ are not separate from but woven inextricably with that of the ‘first economy’.**

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