

WHITHER LED IN SOUTH AFRICA?

**A Commentary on the Policy Guidelines for Implementing Local Economic
Development in South Africa, March 2005**

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1. INTRODUCTION

1.1 LED policy: a difficult birth

Local economic development (LED) policy in South Africa is going through a difficult birth. During the first decade of democracy, the focus of municipal LED initiatives was on community economic development projects, many of which proved economically unviable and had no lasting impact on poverty reduction. Cooperation between government, local businesses and the voluntary sector was often weak or inexistent and non-state actors felt sidelined from most government initiatives. There was lack of consensus over the goals of LED, whether these were primarily to promote economic growth or poverty reduction. Added to this was confusion over the target groups, processes, institutional arrangements and tools of LED. Underlying these difficulties were paradigm conflicts over the role of the state and markets in development.¹ More fundamentally, local economies were subject to powerful new forces resulting from South Africa's opening to economic globalisation, forces that entrenched inherited spatial patterns, cross-cutting government's efforts to integrate prosperous and impoverished localities and regions. LED practice, as pursued by (local) government, had indifferent results, both in terms of economic growth and sustained poverty reduction. In particular, the experience of the Local Economic Development Fund (LEDF), set up by the Department of Provincial and Local Government (DPLG) to support poverty reducing LED projects, produced dismal results.²

Responding to these difficulties, two major efforts have been made by the DPLG to formulate a national policy framework for LED, the first resulting in a document entitled Refocusing Development on the Poor, dated 2001 and the second entitled Policy Guidelines for Implementing Local Economic Development in South Africa, 2005.³

The main aim of the first document was to bring "the poor to the centre of LED strategy". It focussed on measures that were to address their needs directly within poor areas, namely community economic development linked to municipal infrastructure service delivery, human resource development and the retention and expansion of local enterprises. The document argued that LED should be implemented within IDP processes that are holistic, people-centred, and focused on job creation, urban and rural development in poor areas. It emphasised the need to pool public funding sources for

¹Hindson D (2003) "Local Economic Development in South Africa: Policy, Practice and Challenges", paper presented to the workshop on National LED Policy Development, Department of Provincial and Local Government, 30th April, 2003.

² A review of the LEDF is provided in: MXA, 2003a: Report on the national policy and institutional landscape of the Consolidated Municipal Infrastructure and Local Economic Development Programmes, DPLG.

³ Republic of South Africa, Department of Provincial and Local Government (2001) 'Refocusing Development On The Poor', Draft Local Economic Development Policy Paper. This is the most recent of a number of drafts and contains important changes in emphasis from earlier ones.

LED and to apply these within integrated LED programmes.⁴ While there was much of value in this document, it contained a number of flaws that were to prove fatal. One was failure to address the question of the competitiveness of the formal economy under increasing pressures of economic globalisation. Another was lack of attention to the connections between growth in the developed economy and employment and income generation opportunities for the poor in the underdeveloped economy. More generally, the document gave inadequate attention to the core LED questions of enterprise and market development. Though widely circulated, Refocusing Development on the Poor was never officially released into the public domain and failed to reach Cabinet for approval.

The Policy Guidelines for Implementing Local Economic Development in South Africa, represent the second major attempt to draft a national policy framework. The process began around early 2003 and resulted in a number of draft documents, culminating in the officially circulated Guidelines of March 2005.⁵ It is this latter document, which we refer to hereafter as the Guidelines, that constitutes the focus of this discussion paper.

1.2 Aim and contents of this paper

The aim of this paper is to provide a commentary on the Guidelines drawing both on South African and international experience.⁶ In evaluating the Guidelines against international practice we wish to emphasise that the basis of comparison is not with some hypothetical international “best practice”. LED in South Africa and internationally is in a period of flux, exploration and experimentation. There is fairly wide consensus over what does not work well in LED. There is less certainty over successes – what does work well. There have been rapid advances in LED process – how LED is undertaken, and considerable success in this dimension across many countries, as reflected in the enthusiasm of participants. But there is much less certainty about the impacts of LED in terms of outcomes such as economic growth and poverty reduction, partly because these are inherently difficult to measure.

Thus when this paper refers to international trends, these are generally exploratory ones in which outcomes are as yet by no means certain. The ideas put forward within the Guidelines are also, in our view, exploratory. At present, can be no ex ante certainty as to what will fail or succeed. Nevertheless, it is useful, we believe, to take note of what is being tried elsewhere, especially the approaches that seem most promising. It is in

⁴ Republic of South Africa, Department of Provincial and Local Government (2001) ‘Refocusing Development On The Poor’, Draft Local Economic Development Policy Paper.

⁵ We take the workshop on National LED Policy, held on the 30th April as the start of this process.

⁶ For the international and South African experience we have drawn substantially on work undertaken for the United Nations Capital Development Fund. The three documents concerned are: Hindson D (2004) Review and Annotated Bibliography on Local Economic Development, United Nations Capital Development Fund, November; Hindson D (2004) Local Economic Development: Lessons and a Recommended Approach for the UNCDF, United Nations Capital Development Fund, September 2004; Vicente V (2004) Local Economic Development in South Africa, United Nations Capital Development Fund, September.

this spirit that we have written this discussion paper. It is intended as a constructive contribution to national debate on how to approach LED in South Africa, in a context of some failures and promising new directions in LED.

Section 2 examines the aims and rationale of the Guidelines. It considers the significance for LED of making integration of the dual economy its core concern, and takes up the question of market failure raised in the Guidelines. Section 3 examines the spatial assumptions underlying the Guidelines. In particular, it asks whether the concept of “municipal economy” matches up to the processes of regionalisation and globalisation actually impacting the South African economy. Section 4 offers a set of conceptual tools to clarify the meaning of LED in the spheres of enterprise, locality and community. Section 5 examines the meaning and role of governance in LED and that of the roles and institutions for LED promotion. Section 6, provides a summary of the main implications of the paper for LED policy in South Africa.

2. THE ESSENCE OF THE POLICY GUIDELINES

2.1 The basic approach

Within the Guidelines, the question of goals is taken up in a number of places and it is entirely clear how they are intended to be prioritised or logically connected. However, in a section entitled “What is LED” a vision statement is provided that identifies “economic growth and poverty eradication” as the main overall goals of LED.⁷ (Guidelines, paragraph entitled The Vision & para 46) This is certainly in line with much international thinking on LED, in which economic growth is generally seen as the immediate objective and poverty reduction, and, more generally, improvement in the quality of life is taken as the overall goal. This is a notable point as there have been some influential actors in the donor fraternity who have questioned this overall objective, in our view incorrectly.⁸

However, compared with “Refocusing Development on the Poor” the Guidelines mark some important shifts in approach on the means to tackle such broad objectives. The first is that there is rejection of the concept of community economic development. (Guidelines, para 53) The second is that enterprise development, and particularly broad based black economic empowerment (BBBEE), seems to be intended as the main immediate focus of LED policy. (Guidelines para. 10-11) Thirdly, the document takes on the concepts of the “first” and “second” economies utilised by President Mbeki in his State of the National Address in 1993,⁹ and makes the creation of “inclusive local

⁷ The question of goals is discussed in the following main places: paras 3, 46 and 109.

⁸ Poverty reduction as a goal of LED has been questioned by some donors in South Africa, most insistently by the LED sections of GTZ and the European Union. However, it is difficult to justify use of public funds to promote economic growth if this is not closely linked with poverty reduction. Economic growth may be the immediate objective of LED, but poverty reduction, or improvements the quality of life, is the overall goal.

⁹ Republic of South Africa, (2003) State of the National address of the President of South Africa to Parliament.

economies” a major policy concern. (Guidelines, para 41-42 & 46) This represents an important attempt at synthesis of the major paradigms underlying the work of the DPLG and DTI.¹⁰ Finally, the Guidelines place territoriality and competitiveness potentially at the centre of LED by introducing the concept of local competitive advantage. (Para 47 last bullet point, 68, 75, 81)

How are these objectives to be achieved? The Guidelines offer a state-centred – indeed a central state centred - approach to LED. Two “drivers” are identified, both involving the state as the principal actor. The first driver is “national and provincial government” and the second is “district and metropolitan municipalities together with local role players”.¹¹ (Guidelines, paras 14-16)

Two broad kinds of measures are identified: “supply-side” and “self-driven”. The “first driver” is responsible for supply side measures. By supply-side, the document refers to the many key policies and programmes pursued by national government (macro-economic, infrastructure, sector and a number of cross-cutting policies) with a particular emphasis on the Micro Economic Reform Strategy (MERS) as a key supply side measure for sector development.¹² The idea is that these policies and the public resources deployed to implement them should be co-ordinated at the local level to achieve maximum impact on economic development.

The “second driver” is responsible for demand-side aspects. The role of the “second driver” is to mobilise local communities within metropolitan and district municipalities. (Guidelines, para 23) The central focus of LED, in this approach, is thus to bring together central and provincial state policies and resources within the framework of locally conceived development actions to promote LED.

The Guidelines thus put central government at centre-stage, and focus most, if not all, attention on effective coordination of state resources. The various funding mechanisms are seen as the main source of opportunities for LED promotion, and state actors are seen as the driving force. This continues, and perhaps even reinforces, the state-centred character of LED as pursued in the last ten years. It runs the risk of perpetuating some of the weaknesses that have plagued LED over that period. In addition, it is an approach that runs counter to some important international trends, in which LED promotion is closely associated with political decentralisation, in which local actors and local resources are given centre-stage, and in which government, including local government, plays an enabling rather than driving role in LED. We take up these issues in greater detail in the rest of this paper.

¹⁰ A discussion of the paradigm differences between these two departments can be found in Hindson, D (2003) “Local Economic Development in South Africa: Policy, Practice and Challenges”, paper presented to the workshop on National LED Policy Development, Department of Provincial and Local Government, 30th April.

¹¹ It is not explained how it is practically possible to have more than one actor occupying the driver’s seat at the same time.

¹² For more detail on the MERS, see Department of Trade and Industry, South Africa, (2002) A Guide to the Microeconomic Reform Strategy, A discussion paper from the dti, May.

2.2 The underlying rationale: overcoming dualism

The justification for a state-centred approach is set out under the heading “Why is LED so important?” (Guidelines, paras 39 to 45) The essence of the argument is that an interventionist role for the state is justified by the continuing dualistic nature of the South African economy. The Guidelines argue that while macro-economic policy has been successful in stabilising the economy since the mid 1990s, it has failed to secure sufficiently high rates of growth or to reduce unemployment and poverty. The main reason for this failure, argues the report, is that South Africa is still characterised by “two parallel economies”. (Guidelines, para 40).

There are two broad questions at stake in using the concept of a dual economy as an underlying rationale for LED. The first is whether it provides a meaningful characterisation of the South African economy, and the second is whether the policy prescriptions drawn from it provide a useful guide to LED promotion. We explore these questions below.

2.2.1 The dual economy thesis

The most influential dual economy theorist was W A Lewis, a Jamaican born economist based at the Manchester School of Social and Economic Studies.¹³ A brief return to his model helps clarify the issues at stake.

In his seminal article, published in 1954, Lewis sought to explain economic development in economies with relatively small “capitalist sectors” and large “subsistence sectors”. Low productivity levels in the subsistence sector would mean that labour supplies to the capitalist sector would be “unlimited” at a fixed wage tied to earnings in the subsistence sector. Growth in the capitalist sector is fuelled by reinvestment of the “capitalist surplus” which derives from the difference between the marginal productivity of labour and the wage rate in the capitalist sector. The wage rate is held down until labour surpluses in the subsistence sector are eliminated by growth in the capitalist sector. When this happens, a turning point is reached when the gap in labour productivity in the two sectors closes and wages start to rise.¹⁴

2.2.2 The applicability of the Lewis model to South Africa

¹³ Lewis W A (1954) “Economic Development with Unlimited Supplies of Labour”, Manchester School of Economic and Social Studies, Vol. 22.

¹⁴ Fei and Ranis took the turning point as a key indicator of the applicability of the Lewis model and tested it empirically in a number of countries. See Fei JCH and Ranis G (1961) “A theory of Economic Development”, American Economic Review, No 51; Fei JCH and Ranis G (1971) “Development and Employment in the Open Dualistic Economy”, Malayan Economic Review, Vol 16.

The applicability of the Lewis model to South Africa was tested in research undertaken in the 1970s.¹⁵ It was found that capitalist development, at its origins, faced labour scarcity, not surpluses. Surpluses of unskilled labour were the deliberate creation of a state that used force to impel black labour to enter labour markets in white commercial agriculture and the mines. A contradiction of the apartheid system was that it also induced labour shortages – in the market for skilled labour. Job reservation and urban influx controls laws, were used in the urban areas to protect white labour from competition from black labour, thereby leading to high wages for skilled white labour, notably in the manufacturing sector. This is one factor that led to the capital deepening that occurred after the Second World War, despite the continuing existence of surplus black labour over this period. In the Lewis model, the subsistence sector coincided largely, though not exclusively, with agriculture, whereas in South Africa this sector was itself characterised by dualism, a commercial and subsistence economy operating side by side, with substantial state support for the former and little for the latter.¹⁶

With the abolition of repressive labour market controls in the 1990s, labour market segmentation rather than equalisation has emerged, to a large degree following the contours left by apartheid spatial policies. Against policy intentions, trade liberalisation has been associated with further capital deepening, not labour intensification, in manufacturing and agriculture, and large numbers of semi-skilled and unskilled workers have been forced into chronic unemployment in black townships, informal settlements and rural areas. Declining mine productivity and a stronger local currency has led to retrenchment of migrant workers on the mines, adding to the unemployed, especially within impoverished rural areas. The growing services and retail sectors have expanded demand for low skilled, casual labour, but not enough to compensate for losses in the primary and secondary sectors.

Thus, both state policies and market pressures have worked against the model proposed by Lewis. Capitalist growth in the South African context has not automatically absorbed labour surpluses, and is currently taking a form (capital deepening) that adds as much to the problem of growing unemployment and poverty as it does to its solution.

2.2.3 The implications of the use of the capitalist surplus for state support interventions

In terms of the Lewis model, the developmental state approach advocated by the Guidelines would mean diverting a substantial part of the “capitalist surplus” for state support measures to increase the productivity of the “second” economy. This, in effect, is what is meant by the “large and sustained human, financial, and technological resource transfers from the “first” to the “second” economy, described in paragraph 42 of the Guidelines. Whereas Lewis sees the capitalist sector, working through the labour market as the engine for growth, elimination of the labour surplus and increases in

¹⁵ Hindson D (1974) Economic Dualism and Labour Reallocation in South Africa, 1917 to 1970, Masters Thesis, Rhodes University.

¹⁶ Ibid. p 9-42.

productivity in the subsistence sector, the Guidelines see the state playing this role through its interventions in both the “first” and “second” economies. From a macro-economic perspective, the policy dilemma is that reduction of the surplus available for reinvestment in the capitalist sector could reduce its rate of growth and hence its uptake of labour. It could also reduce the size of the capitalist surplus and thus the share available for state support of the “second economy”.

This takes us to a key question not explicitly addressed in the Guidelines, namely to the role of the state and of markets in LED promotion. The Guidelines assert that the continuing existence of dualism calls for state intervention, but does not actually make a case for this. The question of market failure as a source of the problem is mentioned once, but is not linked to dualism.¹⁷ The question of state failure is not mentioned at all, notwithstanding recognition of the failure of state promoted LED in South Africa over the last decade. However, we would argue that it is by no means self evident in which areas of LED the state or the market are best placed to achieve objectives of growth and poverty reduction, or how the two need to be combined to achieve optimal results. These questions are at the heart of LED and are taken up in Section 4 below.

There is much debate internationally about the nature and prevalence of market failure. There is equally debate about the extent and forms of state failure. However, out of a contested field, some broad guidelines may be extracted to aid analysis of both, and ways of overcoming them. Market failure is generally understood as a situation in which free markets (those not encumbered by government intervention) fail to deliver the most efficient allocation of resources. This may be due to productive or allocative inefficiencies. It may be caused by a range of factors including externalities (divergence of private and public costs), imperfect information, the public or quasi-public nature of goods (markets do not account for externalities because they involve non-excludable and non-rivalrous consumption), market power inequalities, factor immobility (geographical and occupational) and inequitable outcomes.

Governments fail where they are unable to deliver services in a form that meets the needs of citizens at the lowest cost compatible with sustained provision over time. The reasons generally cited for government failure are they are too bureaucratic, hierarchical and opaque. This means they are liable to produce asymmetric information flows. Further factors are that bureaucracies may attract or - more damaging - retain personnel who lack commitment, an ability to bargain or to compete. In South Africa, human capacity shortages have compounded the problems of service delivery failure, certainly in the area of LED.

Fundamentalist positions about the prevalence of market or state failure are not very helpful, either for understanding LED or acting to promote it. The ideas advanced can at best help provide a framework for thinking about the roles of public and private actors in service provision. The practical challenge is to work out where, more specifically,

¹⁷ Paragraph 45. The discussion of market failure in the Guidelines is by no means clear. Three ideas about it are mentioned: 1) failure to recognise or pursue opportunities, 2) the pursuit of opportunities by a minority and, 3) a situation in which “supply and demand are not in equilibrium”.

markets work well and where the state is better placed to provide the service.¹⁸ In Section 4 we look at trends in LED internationally to throw light on where state or markets, or partnerships between private and state actors are likely to give the best results.

¹⁸ An important attempt has been made by Pritchett and Woolcock to do this in the area of social services.¹⁸ Their ideas could be fruitfully applied to LED which would probably be found to be more “transaction intensive” than many public services. Pritchett L and Woolcock M (2004) “Solutions when *the* Solution is the Problem: Arraying the Disarray in Development, World Development, vol 32, no. 2.

3. RETHINKING THE LOCAL ECONOMY

Is dualism a sharp enough conceptual tool for analysing local economies and formulating policies to improve them? In its original form, the Lewis model assumed a closed economy and gave no attention to local economies within national states, thus providing little that would enable consideration of local action to promote LED.¹⁹

While the model of dualism provides a useful tool for thinking about relationships between aggregate variables in the national economy, it is too general, in our view, to capture the complex set of endogenous and external factors that operate in and on local economies under contemporary globalisation.²⁰ As will be shown below, local economies are characterised by strong tendencies towards regionalisation, a concept that is not readily accommodated by the bi-polar sector approach of the Lewis model, or the ideas of “first” and “second” economies. The Guidelines take municipal and metropolitan areas as the spatial focus of LED and seek to create “robust and inclusive local economies” within all of them. There is, however, enormous variation between these areas in terms of the size of the developed and low productivity economies within them, their linkages to national and global economies, and potential for growth or further decline. A policy that is not based on explicit recognition of these realities and the powerful forces underlying them seems very likely to flounder.

We argue below that what is needed is to frame an approach to LED that is grounded in an understanding of regionalisation as it is working itself out in reality within South Africa’s regions and localities, and design measures and actions that respond to the opportunities and threats this provides.

3.1 Regionalisation in the in the context of globalisation

The Guidelines identify Metropolitan and District Municipalities as the appropriate territorial areas for the development of local economies. (Guidelines, para 38). The reasons given are that municipalities contain sufficient “critical mass” of economic activity to enable the development of “viable economies” and because “all state and economic activity converges in one or another municipal areas (sic)”. (Guidelines, para 6) Is it realistic though to expect the development of viable economies at the Metropolitan and District levels throughout the country? This certainly contrasts with international experiences which emphasises the growing disjuncture between political/administrative territories and economic boundaries, the growing spatial

¹⁹ However, Fei and Ranis, as well as Lewis himself, in later writings, did take on the issue of dualism in open economies.

²⁰ We focus here on spatial dimensions. Others are also important, such as the existence of segmented, rather than merely dual, labour markets, but these features are not addressed in this paper as they are not central to the argument we seek to make.

unevenness of economic activity and the corresponding difficulties faced by local government operating in resource scarce localities.²¹

New regional divisions of labour and production centres have arisen from intensification of trade and global competition since the 1980s and 1990s, and these often do not correspond to administrative territories. Moreover, the opportunities arising from globalisation appear more restricted and the threats more severe for local economies and communities in low and middle income countries and especially the marginalised areas within them than in the high income countries. Local human capacities and natural resources as well as national financial and other resources for support are less available, making adjustment to global pressures more difficult. These problems are compounded by the structural adjustment and liberalisation policies that many developing countries have been obliged to adopt by international development institutions and which have reduced public resources available for development support in peripheral areas within these countries.²² As de Campos Guimaraes has expressed it, "The logic of globalisation is not only a logic of integration; it is also a logic of exclusion and differentiation."²³... Some parts of countries become linked into the world economy while others are de-linked from global flows and remain invisible or irrelevant until a war or disaster or crisis brings them briefly into the focus of national or international attention".²⁴

This too, is the case within South Africa. Here, some district municipal areas, and even series of contiguous district municipalities, as in the former homelands, have weak or declining economic bases surrounded by growing numbers of unemployed and under-employed people, while metropolitan areas and a few smaller cities and towns have relatively prosperous economies well connected into global systems, though also always with large declining, marginalised and excluded economic localities and residential zones.

It is therefore by no means realistic to assume that all District Municipalities constitute optimal territories to develop viable local economies. The approach in the Guidelines sets up an ideal that would be extremely difficult and costly to achieve and may divert energies from more realistic objectives with more sustainable outcomes. Indeed, many District Municipalities will be hard pressed for the foreseeable future to retard economic decline, let alone to turn it around. Many of their residents will still be obliged to look outside their boundaries for meaningful employment and business opportunities. It is for this reason, we believe, that the National Spatial Development Perspective (NSDP) has suggested a more economically functional categorisation of spaces. It seeks to classify areas in terms of their economic potential and needs. In areas with both potential and need, government should fund fixed capital investment, whereas in areas with only

²¹ Messner D (2003) "The network based global economy: a new governance triangle for regions" in Schmitz H (ed) *Local Enterprises and Upgrading*, Elgar, Cheltenham.

²² De Campos Guimaraes J P (1998) "Planning for Resource-Poor Regions in a Globalising World: Implications for Practice and Training", *Regional Development Dialogue*, Vol. 19, No.1, Spring.

²³ de Campos Guimaraes JP (1998) "Planning for Resource-Poor Regions in a Globalizing World", *Regional Development Dialogue*, 19:1, Spring.

²⁴ Ibid. p. 28.

need a basic package of service should be provided including social transfers, human development and labour market intelligence. In the latter areas people would be enabled to migrate out into ones with greater opportunities.²⁵

Understanding the way in which local economic clustering occurs within global value chains may provide some of the clues to a more realistic approach in South Africa.

3.2 Clusters and value chains

The Guidelines make mention of economic clusters and commodity value chains mainly in the context of the Provincial Growth and Development Strategies (PGDSs), where they argue that the cluster approach should be “highlighted” in the context of identified sectoral policies. They define economic clustering “as the crowding in of many different enterprises within a particular value chain (agro-industry, mining, tourism, hides and tanning) in a wide local area”, but do not provide a definition of the concept of value chain. (Guidelines, paras 72, 97 and Value chains 72) The inclusion of an economic cluster and value chain approach potentially opens up important perspectives on the nature of regionalisation and its implications for LED, but there is not attempt to show how the existence of these tendencies influences the scope for LED action, which is the key question that needs to be addressed if LED is not to be voluntarist.

This sub-section provides a brief overview on these issues, focussing specifically on their implications for LED.

3.2.1 Clusters and regionalisation

Local economic clustering appears to be growing in significance under globalisation. It has been observed that the clustering together of firms within regions may strengthen the competitive advantages of those regions and the countries in which they are located. Porter argues that “it is the combination of national and intensely local conditions that fosters competitive advantage.”²⁶ Competitive regions are subject to “spatial agglomeration effects which bring into being pressures for the regionalisation of co-ordination and regulation”.²⁷ Thus, passive agglomeration economies may be being superseded by what is referred to by Schmitz as “active collective efficiency”, namely, self help or joint action in both production and distribution to improve the competitiveness of firms within a locality or territory.²⁸ It is this joint action, within clusters of small and medium sized firms in connected sectors, that in some industrial

²⁵ South African Government, The Presidency (2004) National Spatial Development Perspective. October.

²⁶ Porter, ME (1990) The Competitive Advantage of Nations, New York, Free Press, p 158.

²⁷ Scott AJ and Storper M “Regional development reconsidered”, (1990) in Ernste H and Meier V(eds) Regional Development and Contemporary Industrial Response, Belhaven Press London.

²⁸ Schmitz H (1999) quoted in Helmsing AJH (1999) “Flexible specialisation, clusters and industrial districts and ‘second’ and ‘third’ generation regional policies, working paper series No. 305, Institute of Social Studies, The Hague, Netherlands.

locations precisely constitutes the core of LED promotion in some high and middle income countries.

However, not all clusters of firms hold the same potential. McCormick distinguishes three types of clusters in African case studies: "groundwork" or pre-industrial, industrialising and complex industrial. In the first, micro and small enterprises predominate and clustering advantages are limited to market access. The second are also local market oriented and have limited external effects. The third are oriented to national and export markets and have greater economies of agglomeration.²⁹

In South Africa, there is a highly uneven distribution of economic activity in terms of this classification. Many areas would hardly qualify as having "groundwork" clusters, for example in many parts of historically black rural areas, informal settlements on urban peripheries and even most townships. It is only in the metropolitan areas and in some major cities and towns that industrial clusters are to be found and, in many of these cases, what agglomeration economies exist remain largely passive. Thus, the scope for LED action based on cluster development will vary widely from one area to the next. Some (rural) district municipalities will be hard pressed to find even "groundwork clusters", while others will have a mix of pre-industrial and industrialising clusters, mostly evincing only passive agglomeration. This is far from the picture painted by the Guidelines of all municipal districts having a sufficiently strong economic base on which to build robust and inclusive local economies. It calls for a more differentiated approach to municipal areas and regions of the country.

3.2.2 Cluster Governance

Some of the literature on LED suggests that the success of local economies depends heavily upon their capacity to establish and maintain effective linkages with dynamic centres of the global economy. The most important capacities are 'thinking' (knowledge-based innovation in ideas and technologies), 'making' (operational competence in production) and trading (cultivating and taking advantage of international networks of culture and commercial connections).³⁰

Competition within regions may be regulated by regional governance patterns – coordination and regulation systems that are territorially bounded and are important in securing their long term competitiveness and viability. Regions without regulatory systems "can enter into a spiral of declining wages and working conditions, lowered rates of profitability and stability..."³¹ The capacity to establish regional governance systems, whether private or public, is obviously highly uneven within and between

²⁹ Helmsing AJH (1999) "Flexible specialisation, clusters and industrial districts and 'second' and 'third' generation regional policies, working paper series No. 305, Institute of Social Studies, The Hague, Netherlands, p 30. See also for similar classification Altenberg T, Hillebrand W and Meyer-Stamer J (1998) "Building Systematic Competitiveness: Concept and case studies from Mexico, Brazil, Paraguay, Korean and Thailand", German Development Institute, Reports and Working Papers 3.

³⁰ Kanter, World Class, p.355. Quoted in de Campos Guimaraes (1998)

³¹ Scott AJ and Storper M "Regional development reconsidered", (1990) in Ernste H and Meier V(eds) Regional Development and Contemporary Industrial Response, Belhaven Press London.

municipal areas and such systems may well be best formed across municipal boundaries, rather than be limited to them as an approach based on District Municipalities would suggest.

Economic clustering processes bring into being a range of non-state actors that are important in determining the course of economic development. These actors include businesses themselves, business associations, producers and consumer associations, and specialist service providers in both the private and public sectors. The (local) state will continue to play important roles, but is not necessarily or even usually the best placed to drive these kinds of initiatives. In a study of partnerships and meso-institutions supporting LED in Latin America, Helmsing concluded that "...local, regional industrial policies have not seen government at the centre stage of policy. Instead endogenous development emphasises the roles of inter-firm cooperation, of business associations, of unions and of government to develop, in interaction with each other, specific skills, resources and private local governance systems. (Helmsing Partnerships, p2).

It is certainly the case that local government in metropolitan areas and in some cities and towns can and have already played constructive roles in LED development in South Africa. It is highly unlikely that the majority if the District Municipalities, those in declining regions of the country, have the capacity or are likely to build it up to play this role on their own.

3.2.3 Global value chains

Economic globalization entails not only regionalisation, as discussed above, but also the intensification of linkages between regional and global markets and a concomitant increase in competition within both. Intensified market linkages are associated with growth in the density and importance of networks linking producers and service providers within commodity value chains. These processes have been associated with the rise of new institutions and regulatory systems governing production and exchange across national boundaries – what Messner refers to as 'private governance in global value chains'.³²

Value chain analysis looks at the production structure of the chain, its governance and its geography, whereas a "sector approach" focuses on categories of economic activity that are not necessarily organically linked, geographically defined or co-terminus with a governance system. There is an elision of these two concepts (sectors and value chains) in the Guidelines which will make practical support measures difficult to defined and carry out.

By examining the various elements in the chain, one can look for productivity improvements *within* and *between* extraction, transformation and exchange stages. A number of value chain analyses have been conducted to examine the impact of export

³² Messner, D (2004) "The network based global economy: a new governance triangle for regions", in Schmitz H (ed.) (2004) *Local Enterprises in the Global Economy: Issues of Governance and Upgrading*, Elgar, Cheltenham.

trade on local producers and this has posed the issue of upgrading of local production in global systems. Competitiveness may be strengthened by firms themselves (individually or through joint action of firms), at industry level (collective action) and through local and central public action. Subsequently some of these actions can be given shape through locally developed regional innovation systems.³³

Messner shows that “territorialisation” occurs in the context of global value chains and trans-national private policy networks. It is therefore insufficient, he argues, to juxtapose territorialisation with globalisation. Economic activity, he stresses, is organised and regulated in terms of “interrelated scales of activity, including the local, national and global.”³⁴ The implications are that “there continue to be geographically bound competitive advantages and locational policy can help strengthen these advantages. Yet, in order to build up systemic competitiveness, local development strategies must first be viewed in the context of their specific global value chains. ... Regions matter, but they form part of a larger, more complex and intertwined transnational economic context”.³⁵

3.3 Implications for LED policy

In the light of this overview, there are a number of implications for LED policy in South Africa, which we will attempt to outline here.

The first is that “sectors”, for example those prioritised by the MERS, do not necessarily coincide with value chains³⁶. Therefore a sector and cluster approach to LED promotion, as advocated in the Guidelines, may not make sense, depending on the context.

Secondly, not all clusters have the same potential for LED promotion. “Groundwork, pre-industrial and industrialising and complex industrial” clusters, for example, offer differing scopes for LED and call for different measures.

Thirdly, it is important to take into account not only local economic clusters but their linkages into regional and global value chains. LED policy cannot afford to focus exclusively on local conditions. It needs also to take into account the positioning of territorial production systems within a global context. As Messner suggested, “the specific needs, options and limits of locational policy come better into focus when regions are seen as part of a larger, more complex and intertwined trans-national economic context”³⁷.

³³ Schmitz H (2004) “Globalised Localities: Introduction” in Schmitz, (ed.) *Local Enterprises in the Global Economy: Issues of Governance and Upgrading*, Elgar, Cheltenham.

³⁴ Dickens P (1998) “A new geo-economy” in *Global Shift*, Paul Chapman, London, p. 12.

³⁵ Messner D (2003) “The network based global economy: a new governance triangle for regions” in Schmitz H (ed) *Local Enterprises and Upgrading*, Elgar, Cheltenham, p. 17-20.

³⁶ A value chain refers to the entire production column or network, starting from basic components and inputs and the various transformative stages, and includes services provided to producers and traders in the chain, logistics and distribution to final users.

³⁷ Messner D (2003) *ibid*.

Fourthly, an important implication of this analysis is that LED initiatives should include measures to connect declining or marginalised areas and/or their populations into economic opportunities in expanding and more successful areas or economic clusters or value chains, whether these lie within or outside the district municipal boundaries. This would be compatible with the intentions of the NSDP, mentioned earlier, but runs against the municipal focus on which the Guidelines are based.

Fifthly, a limitation of the Guidelines is that provincial government, through the PGDS, is seen as the main source of support for cluster and value chain development. There are important roles that provincial (and national) authorities can play, especially where value adding potential along the value chain lies within a region³⁸. However in many circumstances it is local or global actors that may make the greatest difference.

³⁸ Examples are provision of basic infrastructure and transport logistics.

4. THE SPHERES OF LED

One of the main weaknesses of the Guidelines is that they do not provide an explicit conceptual framework with which to understand LED. The nearest the document comes to this is in the section entitled “What is LED?”. The first two paragraphs of this section set out a vision of: “Robust and inclusive local economies that exploit local opportunities, address local needs and contribute to national development objectives such as economic growth and poverty eradication”. (Guidelines, para 46) This vision is supplemented by a list of characteristics of local economies. These include resourceful people, leaders that inspire confidence, workers who are skilled, assets that are well harnessed, environments that are attractive, partnerships that are well functioning, income that circulates locally and use of unique strengths to create competitive advantage. (Guidelines, para 47)

Paragraphs 48 to 54 of the same section have a more practical aim, and seem to have been written by a different hand. The World Bank definition of LED is quoted approvingly as follows: “Local economic development is the process by which public, business and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all”. (Guidelines, para 48). The World Bank’s definition is clear and concise. It draws directly on the work of Blakely, which has been widely used, in adapted form, in a number of contexts internationally.³⁹ The advice that follows about prioritising the local economy, creating partnerships and building local competitive advantage is practical and useful.

The main weakness, as we have intimated, is that there is no conceptual framework provided. A more explicit framework, one providing a guide to understanding and action is needed. This section draws on the work of two influential LED practitioners, Helmsing and Meyer-Stamer to provide the elements of such a framework. Both authors have sought to give order to the complexity of the economic, social, physical and political dimensions of LED, and to describe the key actors, processes, institutions and outcomes of LED initiatives. Helmsing divides LED initiatives into three broad categories: locality, enterprise and community economic development.⁴⁰ Meyer-Stamer uses a hexagon and triangles to illustrate the various dimensions of LED. These triangles represent the following elements: the target groups of LED (which includes the

³⁹ The generic definition, on which the World Bank and other authors have drawn, is that provided by Blakely EJ (1989) *Planning Local Economic Development: Theory and Practice*, Sage, Newbury Park. Examples of variations of this definition applied to different contexts are to be found in Helmsing A H J (2003) “Local Economic Development: New Generations of Actors, Policies and Instruments for Africa”, *Public Administration and Development*, 23, p. 69, and Van Boekel G & van Logtestijn M (2002) “Applying the Comprehensive LED approach: the case of Mozambique”, ILO.

⁴⁰ Helmsing AHJ (2003) “Local Economic Development: New Generations of Actors, Policies and Instruments for Africa”, *Public Administration and Development*, 23, p. 69.

whole range of individual and group enterprises), location factors, policy focus and synergies, sustainability, governance and LED process management.⁴¹

These two frameworks share the basic separation of the field of LED into three main spheres: enterprise, locality, community. From Meyer-Stamer's Hexagon, we have added governance, to make up what we believe to be the four principal spheres of LED. It is important to stress that these spheres do not represent watertight compartments either conceptually or empirically. They are heuristic devices intended to capture the clustering of relationships and institutions that make up social, economic and political life. They may be seen as parts of a complex whole of inter-relationships within a locality. LED relates as much to relations within each sphere as to relations between them.

We describe the first three spheres and the LED measures relating to them in this section and the fourth in the next, Section 5.

4.1 Enterprise Development

Enterprise development refers to those actions which help strengthen the economic base and competitiveness of a locality through improving the access of individual and group enterprises to market opportunities and enhance the collective efficiency of groups of connected businesses. It includes initiatives such as promotion of linkages between local businesses, emergent entrepreneurs and start-up companies and potential investors from outside, the use of public procurement policies, strengthening of economic clusters and value chains, financial support and non-financial business development services (BDS).

The area of enterprise development is increasingly taking centre stage within LED. Indeed, some practitioners, like Meyer-Stamer, argue that this, along with locality development, represents the core of LED.⁴² Within the sphere of enterprise development, there has been a shift of focus over time from investment attraction (associated with the first generation of LED) to retention and growth of existing businesses within a locality, particularly small and medium sized ones. There has also been an increasing focus on linkages between existing, newly forming and external enterprise, as emphasised, for example in the UNDP report on "Unleashing Entrepreneurship"⁴³ and the work of Prahalad on market ecosystems.⁴⁴

⁴¹ Meyer-Stamer J (2004) A summary of the Hexagon of local economic development, Mesopartner, Duisberg.

⁴² Mayer-Stamer J (2004) "A summary of the hexagon of local economic development", Mesopartner, Duisberg. jms@mesopartner.com

⁴³ UNDP (2004) Unleashing Entrepreneurship: Making Business Work for the Poor, Commission on the Private Sector and Development, Report to the Secretary General of the United Nations.

⁴⁴ Prahalad C K (2004) The Fortune at the Bottom of the Pyramid, Eradication Poverty through Profits, Enabling Dignity and Choice through Markets, Wharton School Publishing, Pennsylvania, p 63-76.

In making enterprise development the main focus of LED, the Guidelines are in harmony with some recent international trends. Where the main difference lies is the roles of the state and markets in providing support services for enterprise development. The Guidelines are also unusual in the emphasis given to broad based black economic empowerment (BBBEE) as an objective of LED. BBBEE appears to be subsumed mainly to the promotion of SMMEs.

Market development

A more recent shift internationally, in terms of support for enterprise development, is from state- to market-based support measures. This follows widespread experience of government failure to provide effective business support services, both financial and non-financial (management training, technical support, marketing etc.). The market approach, according to a World Bank/ILO report is based on the “fundamental belief in the principles of a market economy, where the state has a role in providing an enabling environment, in correcting or compensating for market failures, and in the provision of public goods⁴⁵, but not in the direct provision of private goods that can be more efficiently provided by the market”⁴⁶.

Market development includes, in principle, all factor and commodity markets. In practice, there are a number of focal areas for this work. One is on “pro-poor” market development, which focuses on improving market institutions to enable increased participation of the poor within them, an area in which DFID has been particularly active, including in South Africa.⁴⁷ A second focus has been on market provision of BDS, an area in which a number of donors have joined forces.⁴⁸ Internationally, BDS

⁴⁵ The provision of public goods refers to those in which the private sector is unable to appropriate the benefits of supply and will therefore not enter the market – an example being certain areas of education and research. In the case of externalities, production or consumption of the good will have positive or negative effects that are not reflected in the price – an example of a negative externality being pollution. Market power creates barriers to entry, reduction in production and extraction of monopoly rents. A case of this occurs where large scale production technologies enable firms to reap economies of scale from production that prevent other firms entering the market. Information asymmetries occur where the potential parties to exchange have asymmetrical knowledge regarding the product or service available or potentially available, placing those with poor information at a disadvantage and producing prices that do not reflect demand and supply. High transaction costs occur where the social and legal framework governing exchanges is poorly developed, making it costly to ensure that agreements will be met, thereby reducing the extent of transactions. This is a problem in many low income countries where the juridico-legal system is either not well functioning or has only a limit scope of application, for example excluding the informal sector. See DFID (2000) “Making Markets Work Better for the Poor: a framework paper”, Economic and Research Policy and Business Partnerships Development, November.

⁴⁶ World Bank Group/ILO, Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition, prepared for the Committee of Donor Agencies for Small Enterprise Development, World Bank Group, Washington, February.

⁴⁷ DFID (2000) “Making Markets Work Better for the Poor: a framework paper”, Economic and Research Policy and Business Partnerships Development, November.

⁴⁸ ILO (2001) Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, prepared for the Committee of Donor Agencies for Small Enterprise Development, World Bank Group, Washington, February.

experiments in a number of countries have produced promising results, although more experience is required to confirm the effectiveness of this approach.⁴⁹ The third area, and the one in which outstanding results have been achieved is in micro-finance provision for the poor.⁵⁰ Efforts to scale up the positive impacts of micro-finance provision on micro and small business development may require coordinating BDS with micro-finance.⁵¹ It should be noted that the most effective schemes are those run by non-governmental agencies and that government intervention in this area has had poor results thus far⁵², including in South Africa.⁵³

The question of market development does not appear in the Guidelines, though within South Africa a number of donor agencies and practitioners are pursuing it vigorously.⁵⁴ This is a serious omission for a policy that makes the creation of an “ideal environment for business” its main immediate objective. This omission underscores the state-centred approach taken by the Guidelines. It leaves the document open to the criticism that it will perpetuate the inappropriate forms of state intervention in LED that have occurred in the past, while restricting the scope for other actors who may be able to provide enterprise development services more cost effectively and sustainably.

4.2 Locality Development

Locality development refers to improvement in the social, economic and environmental conditions in which businesses operate within a given territory, and includes the strengthening of both tangible and intangible location factors.⁵⁵ The Guidelines rightly

⁴⁹ Bear M, Gibson A & Hitchins R (2003) “From Principles to Practice: Ten Critical Challenges for BDS Market Development, The Springfield Centre for Business Development, Mountjoy Research Centre, Durham, UK, June.

⁵⁰ Mosely P and Hulme D (1998) “Microenterprise Finance: Is there a conflict between growth and poverty alleviation?” *World Development*, 26/5.

⁵¹ Dawson J (1997) “Beyond Credit: the emergence of high-impact, cost effective business development services” *Small Enterprise Development*, 8/3.

⁵² Farbman M and Lessink A (1989) “The Impact of Classification on Policy...”, copy distributed at UNCDF Workshop, Institute for Social Studies, The Hague; Mosely P and Hulme D (1998) “Microenterprise Finance: Is there a conflict between growth and poverty alleviation?” *World Development*, 26/5.

⁵³ HSRC (2005) *Overcoming Underdevelopment in South Africa's Second Economy*, July, Ch 8, p 28-34.

⁵⁴ GTZ is a part of the German Technical Cooperation stable of aid agencies in South Africa. Care/Leap (2003) *Tools and Frameworks for Conducting Local Community Development Assessments*, Facilitators Guide, South Africa-Lesotho, Volumes 1 & 2, September. Commark, meaning commercial markets, is supported by the Department for International Development (DFID).

⁵⁵ Tangible factors include provision of infrastructure and services, preservation of the built and natural environment, and also the research, education and training institutions serving business and the wider community in an area. A further distinction may be drawn between “economic” and “social” infrastructure, the former addressing more directly the needs of business and the latter the needs of communities and individuals as residents. Important categories of bulk infrastructure may have dual residential/business use. These include roads, storm water drainage, water supply, and sewerage and electricity systems. Intangible factors would include the receptiveness of local government to business, the local business climate and the image of the locality as a prospective site for investment. Meyer-Stamer J (2004) A summary of the Hexagon of local economic development, Mesopartner, Duisberg.

place locality development at the centre of government involvement in LED. This corresponds directly with the injunction in the Local Government White Paper of 1998, quoted in the Guidelines, that local government is not directly responsible for creating jobs but that “Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities”. (Guidelines, para 52).

One important role that government can play to improve the business environment is to reform and streamline the regulatory regime for business activity. The Guidelines do not give attention to this, yet it is of critical importance to LED business promotion, being cited in many countries as one of the main inhibitors to business investment within localities. In South Africa, local government regulations play some role in this, but provincial and national government are the responsible authorities for much of the legislation and regulations that make business start ups and operation difficult.

A major part of locality improvement entails the provision of public or quasi public goods and services. It is therefore a sphere of LED in which it is appropriate for the (local) state to occupy centre stage. Nevertheless, there remain important roles that other actors in the private sector and within communities can play, often in partnership with (local) government.

Planning is a key instrument for locality development, and local government is in the best position to carry it out. In South Africa, the integrated development plans (IDPs), based on the principles of participation, have been effective in uniting local stakeholders around broad visions and programmes of development. However, they have not yet proved effective as instruments of implementation and financing of local level initiatives. Their treatment of LED in the IDPs has been especially feeble, often providing little more than lists of untested ideas for quasi business development projects, often repeated from one IDP report to the next across different municipalities. Part of the reason for this has been the under-appreciation of the importance of locality development for LED. Efforts on the part of municipal officials involved in LED to ensure that business is well serviced with basic location factors would reap far greater rewards than financial subsidies for unviable quasi businesses. The IDPs are not suitable instruments for much of LED, for example provision of financial and non-financial business services, but they are potentially useful for medium and longer term physical development planning.

Important questions with respect to locality development are to do with the priorities given to social and economic overhead capital expenditure and how and by whom these services are provided and maintained. Some public expenditure, for example in the spheres of housing and residential infrastructure, has had substantial positive impacts on the material quality of life of residents in poor locations, but rather limited impacts in terms of sustainable business creation, employment and income generation. The

experience with small scale economic infrastructure provision, such as business stalls and markets, under the Local Economic Development Fund (LEDF) in South Africa has been even more disappointing.⁵⁶

Locality development in the form of infrastructure, housing and municipal services is important both socially and economically. The size and state of the asset base of the poor, both individual and collective, has been shown to be a major determinant of the welfare and survival capacity of the poor.⁵⁷ It is also a critical determinant of their capacity to engage in markets, both as workers and as producers of commodities and services. It is not the specific role of LED practitioners to ensure the provision of these services. They can, however, play an important role in ensuring that public infrastructure and service programmes are designed to enable the poor to engage economically.

The disappointing results of locality development thus far in terms of LED objectives are not inevitable. Internationally, the way infrastructure and service provision are being undertaken is changing rapidly. There is increasing use of the private sector, local communities and NGOs in construction, operations and maintenance through public-private and public-community partnerships. Local authorities are retaining, and strengthening, overall monitoring and regulatory responsibilities. The vehicles for these initiatives are public-private and public-community partnerships. The South African government has already formed partnerships with the ILO and the Department for International Development (DFID) to promote labour intensive public works programmes in poor rural areas, with signs of success.⁵⁸ The Local Development Programmes (LDPs) run by the United Nations Capital Development Fund (UNCDF) in several low income countries across Africa, have recorded positive outcomes using community and private sector partnership for small scale capital investment and maintenance projects in low income countries. The LDPs combine efforts to strengthen local economic governance, business development for private sector contractors and strong community involvement in decision taking and implementation of labour intensive infrastructure and maintenance programmes.⁵⁹

A major challenge for locality development in South Africa is to go beyond the once-off impacts of public works programmes on employment, business formation and income generation within localities. The next step is to focus on the complementary private investment in economic activity geared to commercial markets in which local business can compete to generate sustainable growth. Both the Extended Public Works Programme (EPWP) and the Municipal Infrastructure Grant (MIG) provide such an

⁵⁶ DPLG (2003) Report on the national policy and institutional landscape of the Consolidated Municipal Infrastructure and Local Economic Development Programmes, produced by MXA, Durban.

⁵⁷ Moser N O (1998) "The asset vulnerability framework, reassessing urban poverty reduction strategies" *World Development*, 26/1.

⁵⁸ South African Government (2004) Address by the President of South Africa, Thabo Mbeki, at the official launch of the Extended Public Works Programme, Sekhunyani Village, Guyani.

⁵⁹ UNCDF (2004) Local Government Initiative: Pro-Poor Infrastructure and Service Delivery in Rural sub-Saharan Africa, a synthesis of case studies, Winter M (ed) United Nations Capital Development Fund, January; UNCDF (2004) Local Government Initiative: Pro-Poor Infrastructure Service Delivery in Rural Asia: A synthesis of Case Studies, Shotton R (ed), United Nations Capital Development Fund, April.

opportunity, as recognised by the Guidelines, but there seems to be no clear understanding of how this may be done. The challenge for these two programmes will be not just to rely on the multiplier effects of public investment, since in many localities these are small or negligible. It will be to connect locality development with enterprise development focus that is based on identification and exploitation of real and sustainable market opportunities. Clearly, the existence of such opportunities will differ from one locality to the next, which implies that decisions about infrastructure expenditure should not be taken in isolation of an understanding of the economic potential of a locality.

However, not all localities will necessarily have the economic base or “unique competitive advantage” to sustain this growth. This is recognised in the NSDP and in some international experience.⁶⁰ Thus, it has been argued that locality development is viable in places with potential for economic growth, but less so in more remote locations where resources are scarce and out-migration predominates. In these regions, an approach to LED focussed on community development could be more appropriate with an emphasis on human development, skills training, and income diversification, as we will see below.

4.3 Community Development

The term community (or social or household) development refers to measures to improve the health, housing, education, welfare, including economic welfare of individuals, households and communities in a locality. It is strongly associated in the development literature with measures to support poor or disadvantaged communities.

There has been much debate in South Africa over whether community development falls within the scope of LED. Meyer-Stamer, following Michael Porter, argues that direct state support for community enterprise creates unviable quasi enterprises.⁶¹ Like many of the enterprise projects funded by the LEDF of the DPLG, these may undermine existing viable businesses and then themselves fail when public funds are withdrawn, leaving local economies and communities worse off. Community development, he argues, is not at the core of LED, but provides an important part of the context. From an LED perspective, daily problems faced by communities create potential opportunities for enterprises, for example the lack of services or appropriately designed and packaged commodities to serve certain markets. Furthermore, business methods may be of use within community initiatives as they provide a model for efficient resources use.⁶²

⁶⁰ South Africa Government, The Presidency (2004) National Spatial Development Perspective. October. (Evans, personal communication, 2004, p 3)

⁶¹ Meyer-Stamer J (n.d) “Principles for Local Economic Development: Options for South Africa”, Mesopartner, Duisberg, www.mesopartner.com; Porter M (1995) The Competitive Advantage of the Inner City, Harvard Business Review, May-June.

⁶² Meyer-Stamer J (2004a) “A summary of the hexagon of local economic development”, Mesopartner, Duisberg. www.mesopartner.com

Helmsing, in contrast, argues that a category of “community economic development” can be usefully distinguished. Community economic development (CED) refers to those actions that strengthen the capacity of individuals, households and groups within poor communities to take up employment and business opportunities, improve livelihoods and promote economic welfare.⁶³ A number of other aspects of CED are characteristic. It generally operates at the local level and favours participatory decision making. It encourages social equity and the inclusion of target populations, for example, women, the unemployed and those with HIV/AIDS. Its primary objectives are to strengthen social solidarity, promote self help and empowerment. It seeks to do this by contributing to employment and improved living and working standards. Profits are the means community enterprise, not ends in themselves.

Notwithstanding Section 153 of the Constitution, which states that “economic development of the community” is one of the functions of local government, the Guidelines take up the position that “artificial or semantic differences between SMMEs and ‘community economic development’ should be abandoned. CED initiatives should be evaluated and supported according to SMME criteria.” This is a sharp turn from LED practice as carried out over the last decade. It is even a break from earlier drafts of the Guidelines themselves, which included CED as an important objective of LED.⁶⁴ The reasons for this change are not explained in the document, but it is likely to reflect the growing influence of a number of donor organisations that have sought to exclude CED from the agenda of LED in South Africa, on grounds of its association with direct poverty reduction measures.⁶⁵ It is a policy shift that local practitioners find hard to understand and even more difficult to justify to their community partners. (Guidelines para 53)

We would argue, that the cluster of activities that make up CED, defined above, cannot be meaningfully reduced to the terms of SMME development. This is not a question of semantics. The term CED itself may not be the best to capture this reality. What is important is that it cannot be meaningfully subsumed to SMME development conceived in terms of individual full time business driven primarily by profit making. SMME development is a diverse category. Much of micro-enterprise, for example, could be just as well brought under the category community economic development as it could under enterprise development. Often, where SMMEs exist in poor communities, they are connected with livelihood strategies and/or home based work. Sometimes they involved producer or consumer groups, which may or may not be formed into cooperatives. In these cases, support strategies will be most effective if their community context is taken into consideration. This means, amongst other things, acknowledging the mixed

⁶³ Helmsing AHJ (2003) “Local Economic Development: New Generations of Actors, Policies and Instruments for Africa”, Public Administration and Development, 23, p. 69-70.

⁶⁴ Republic of South Africa, Department of Provincial and Local Government 2004) National LED Policy and Strategy Framework, dated 27/04/04, para 54, p. 28.

⁶⁵ The organisations that have been most insistent that CED does not represent a meaningful category within LED are entities within the GTZ and the EU that have been involved in LED promotion in South Africa.

objectives of such activities, the pressures of diversification for household survival and the mix of wage and profit elements involved.⁶⁶

This does not mean that market principles do not apply. Indeed, community-based enterprise is no less subject to market forces than private enterprise and can just as well take advantage of market opportunities or fall prey to its threats. Prahalad has shown how large scale opportunities for the connection of community based economic activities to national and multi-national corporate production and distribution systems are feasible. Indeed, he goes as far as arguing that these constitute the most important new markets for corporate business expansion and that this is not merely compatible with, but is essential to, widening the frontiers of sustainable poverty reduction, a point that should be noted especially by those who seek to decouple LED from poverty reduction. (Prahalad 2004) Another relevant case is described by McCormack and Schmitz: that of home workers in the garment industry. They make a strong case for the use of value chain analysis to deepen understanding of the position of home workers in global value chains. This understanding, they argue, provides a basis for their more effective organization and an increase in their bargaining power vis-à-vis their client buyers and producers. (McCormack and Schmitz 2002)

What are the implications? Firstly, community development, in our view, is an integral sphere of LED. Communities supply labour and other inputs to enterprise and are the source of final consumptions markets. The state of health, education, skills, employment, income and creativity of communities are important parts of the environment for business development and create many of the opportunities for business. Secondly, it does not make sense to reduce the area of community economic development to just another form of SMME development. The diversification strategies of households involved in livelihood activities, which often include both wage labour and micro enterprise, make the application of pure business practices difficult if not undermining. Home-based labour linked into commodity value chains have features of both wage labour and profit making. Experience suggests that many of these micro enterprises, particularly those involving operators near the edge of survival, do not respond well to business development support services and may even be undermined by them in that they create a dependency which then shows once support is withdrawn.⁶⁷ Thus differentiated responses, distinguishing those able to “graduate” from micro to small and medium business from those that are survival oriented need to be developed for poor communities, as is the case in a number of countries.⁶⁸ There will be

⁶⁶ Prugl E and Tinker I (1997) Microentrepreneurs and Homeworkers: Convergent Categories, World Development, 25/9; Fillon P (1998) “Potential and limitations of community economic development: individual initiative and collective action in a post-Fordist context”, Environment and Planning, 30.

⁶⁷ Moser N O (1998) “The asset vulnerability framework, reassessing urban poverty reduction strategies” World Development, 26/1.

⁶⁸ Farbman M and Lessink A (1989) “The Impact of Classification on Policy...”, UNCDF Workshop on Local Economic Development, Institute of Social Studies, The Hague, 2004; McCormack D and Schmitz H (2002) Manual for Value Chain Analysis on Homeworkers in the Garment Industry, Institute for Development Studies, Brighton, Sussex; Mosely P and Hulme D (1998) “Microenterprise Finance: Is there a conflict between growth and poverty alleviation?” World Development, 26/5.

many amongst the poor who have little chance of responding effectively to business support measures, and these are people who may be better afforded welfare support.⁶⁹

An important area of potential focus for local government in community economic development is to support efforts aimed at the organisation of the poor. Local level actions by poor households and community organisations can increase the negotiation position of the poor and marginalised groups such as women producers in markets and pressurise the state to provide appropriate public goods and services. Medium and small business may also have an interest to organise at the local level to strengthen their market positions, though here competition between individual firms may be an inhibiting factor and the role of business associations becomes important.

Non-governmental organisations may also help improve the functioning of markets for the poor, through, for example, provision of tailor-made market-based micro-credit facilities, training, capacity building and market analysis. The principles of market development require that such interventions improve the functioning of markets rather than to replace them, and thus will generally involve only short term subsidisation, or none at all. Market development approaches that seek to aid the poor will need to be sensitive to these distinctions within communities and different categories of community and household enterprise, to ensure that they do not create greater vulnerability for those on the edge of survival by inducing them to focus on economic specialisation.

⁶⁹ A similar view is presented by the HSRC (2005) *Overcoming Underdevelopment in South Africa's Second Economy*, July, where a distinction is drawn between “entrepreneurial and non-entrepreneurial business”. It would seem to us that the difference between the kinds of activities is less to do with whether they are entrepreneurial or not and more to do with the context in which they are undertaken and their objectives, as argued above. See also Chapter 3 page 10 of the HSRC report which provides an interesting perspective on the developmental consequences of welfare expenditure.

5. LED GOVERNANCE

The core concept related to LED governance used in the Guidelines is that of “developmental” state. This 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 to improve the quality of their lives”. (White Paper March 1998 quoted in Guidelines, para 25) In this definition, the main idea that comes across is that the state should play an enabling role.

However, the body of the Guidelines is not devoted to ways in which the state should enable other actors but rather to the interactions between different levels of government involved in LED. Overall, the dominant conception of the state that comes across is centrist and the “developmental” state, as conceived in the Guidelines, appears to be a hybrid of enablement and intervention.

5.1 Enablement

Internationally, a strong trend in state involvement in LED has been to shift from direct *intervention* to *enablement*, the latter term understood as a process in which government creates a favorable environment and provides support measures to help all public and private actors contribute to the best of their ability to LED, rather than to provide itself.⁷⁰

The meaning of enablement has been fleshed out by Burgess, Kormona and Kolstee who distinguish between “political”, “market” and “community” enablement, concepts that align closely with the spheres of LED discussed in the previous section.⁷¹ These concepts, and their implications for LED governance, are briefly discussed below.

5.1.1 Political enablement

Political enablement involves “transformation in the structures and functions of central and local government, the relations between them, and their relations with the market and the community...It is achieved through political and administrative decentralisation, democratisation, and managerial and institutional reform. It involves the widespread use of NGOs and community-based organisations and entails the adoption of enabling strategies towards the market and the community in the allocation of material and financial public goods and services”.⁷² Enablement in this sense means changing roles for government and building governance capacities rather than merely shrinking the scope of the state. The intention is to transform the state so that it, in turn, can enable

⁷⁰ Helmsing A H J (2002) “Local governance hybrids: enabling policies and citizen approaches to poverty reduction”, paper presented to the Institute for Social Studies Conference on Globalization, Conflict and Poverty: 7-9th October.

⁷¹ Burgess R, Cormona M and Kolstee T (1994) “Position paper on urban strategies and urban design”, prepared for the international seminar on the hidden assignment, Delft, Publikatieburo Bouwkunde.

⁷² Ibid.

private and civil society actors to perform more effectively. Decentralisation is an essential part of this.

Political enablement has particular relevance to the role of the (local) government in locality development. Important in this is strengthening the capacity of local government for local planning using various funding mechanisms available (EPWP, MIG, Integrated Sustainable Rural Development Programme, Urban Renewal Programme, to name but a few) for the provision of infrastructure and service provision.

A centrally determined LED is, of course, an oxymoron. It not only runs against international trends in LED, which emphasise the connection between LED and political decentralisation, but also appears to contradict the intentions of the South African Constitution, which mandated local government to promote LED. For LED practitioners within local government, it perpetuates a focus, and dependence on, external public resources and actors – the “first drivers” of LED, namely national and provincial government.

It needs to be stressed that this is not a blanket criticism of the approach taken in the Guidelines. There is clearly an important role for national and provincial government in LED enablement. In particular, a heavy responsibility lies on the state to provide public goods that are critical for creating a favourable environment for business, entrepreneurial activities and community development. However, political enablement does not mean merely inter-governmental coordination, packaging and delivery of these goods and services, the main focus of the Guidelines. Critically, it means involvement of business, community and other actors, not only as the beneficiaries of externally sourced public resources, but also as initiators, contributors, implementers, monitors and evaluators of development in their areas. It is this, the life blood of LED, which has been drained away by the Guidelines.

5.1.2 Market and business enablement

Market and business enablement refers to “the facilitation and promotion of formal and informal business sectors and entrepreneurs to provide market solutions for the production, distribution and exchange of goods and services”.⁷³ As discussed in the section on enterprise development, there are various forms of market and business enablement. Generally, the trend is away from direct state provision of business development services towards their private provision, which may entail the use of state funds. In the public goods domain, various partnership arrangements between government as financier and regulator and the private sector as provider and deliverer of services have emerged or are being tested in different countries. Rather than intervening to replace commercial markets, efforts are being made to enable them to work better, particularly for the poor.

⁷³ *ibid.*

The Guidelines make securing “an ideal environment for business” the main immediate aim of LED. The problem lies not with this objective so much as with the means suggested for attaining it. In the Guidelines, business enablement is essentially seen in terms of state provision of a range of support services. These include financial and non-financial BDS and various supports for cluster and value chain development. State provision of financial and non-financial business services have generally not proved successful either in South Africa or internationally, as argued above. Where successes have been scored, this has occurred through the development of specialised private agencies, including both non-profit and for-profit institutions.⁷⁴

The central challenge in the growth of pro-poor markets is one of institutional development involving appropriate and mutually reinforcing roles for public, private and non-governmental actors aimed at support for economic growth with a strong pro-poor orientation. Since markets are increasingly determined by national and international forces, market development will necessarily involve actors and institutions acting at these levels too. Nevertheless, mobilisation of actors and institutions at the local level can play an important role.

The market development approach may well require an increased, rather than decreased, role for the state as economic development proceeds and market relations expand. The key roles for government is that of market enablement, namely to create a supportive economic, legal and regulatory framework, identify market failures and take appropriate action where this does not entail costs that are greater than those created by the failures.

Local government and other public authorities operating at the local level will generally not be in a strong position to promote market development themselves, outside of the area of public goods and services provision, but they are in a good position to play facilitation roles.

5.1.3 Community enablement

Community enablement is “a strategy adopted by central and local government to co-ordinate and facilitate the efforts of community and neighbourhood-based organisations to initiate, plan and implement their own projects according to the principles of self-determination, self-organisation and self-management”.⁷⁵ It aims to strengthen the capacities of individuals and groups in poor communities to support their own development. It does this by deepening democracy, drawing local communities into decision taking over development priorities and by encouraging direct involvement in construction and maintenance of public infrastructure and service provision programmes. Community enablement includes the promotion of individual and group,

⁷⁴ Bear M, Gibson A & Hitchins R (2003) “From Principles to Practice: Ten Critical Challenges for BDS Market Development, The Springfield Centre for Business Development, Mountjoy Research Centre, Durham, UK, June.

⁷⁵ Burgess R, Cormona M and Kolstee T (1994) “Position paper on urban strategies and urban design”, prepared for the international seminar on the hidden assignment, Delft, Publikatieburo Bouwkunde.

small and micro, enterprise and the livelihood activities of households on the edge of survival.

Community enablement is clearly the intention of national policy. This is reflected, most notably, in the Reconstruction and Development Programme (RDP), the South African Constitution but also in the Municipal Systems Act, all of which emphasise the importance of community involvement in development. In practice, community participation has fallen far short of stated policy intentions, for example within a great number of housing and residential programmes carried out in the latter part of the 1990s and into the 2000s.⁷⁶

The Guidelines seem to equivocate on the question of community enablement. On the one hand, they describe enablement in terms of the involvement of communities and citizens; on the other, they dismiss community economic development as an artificial concept. We would argue that community economic development needs to be retained as an important focus of LED, for the reasons advanced in the section above on this subject.

The Guidelines give centre stage to political enablement and leave business and community enablement in the wings. This may not have been the intention of the document, but it is the result. This is clearest in paragraph 34, which could stand as a definition of political enablement. It reads: "The state together with all its organs and agencies has a key role to play in growing and developing the economy and fighting poverty. The state's duty is to create an enabling environment for people as individuals and as communities to organize themselves, taken control of their destiny and work towards prosperity." (Guidelines, para 34. See also para 44) Distinguishing between political, business and community enablement could help clarify the focus and orientation of the Guidelines.

5.2 Roles of different levels of government in LED

The Guidelines deal only with the roles of government in LED, which we believe is one of their main weaknesses. These roles are set out in the sections entitled "What needs to be done" (Paras 59-89) and "Who does what? Making the connections", which distinguishes national, provincial and local government. (Paras 90-108). Here, we examine the roles described for government in the Guidelines and then consider how other actors can also contribute to LED.

5.2.1 National government

⁷⁶ MXA (2003): Report on the national policy and institutional landscape of the Consolidated Municipal Infrastructure and Local Economic Development Programmes, DPLG.

The main role for national government set out in the Guidelines is that of coordination of public policies and investment programmes, of which the most relevant are GEAR, the RDP, the MERS, and BBBEE, the EPWP and MIG⁷⁷. These last two funding mechanisms are seen as contributing both in terms of creation of improved infrastructure and services and in providing opportunities for skills development, employment and business creation, particularly in the nodes identified for the Urban Renewal and Integrated Sustainable Rural Development Programmes.⁷⁸. (Para 61-62)

Specific mention is made of the Sector Education Training Authorities (SETAs) and the newly formed SEDA (Small Enterprise Development Agency), the Local Business Service Centres (LBSCs) and National Manufacturing Centres (NAMACs). Government is also to ensure access to loans, directly, through the Banking Charter (an agreement with the commercial banks) and through legislation to permit the establishment of local savings and credit banks. (Guidelines, para 66) Included in the national government's role is provision of credit to SMMEs, through the SEDA and, for agriculture, the Agricultural Credit Scheme (ACS).

These multiple public funding mechanisms are seen as opportunities for LED, and the task for national government is to coordinate them to achieve maximum impact: "All the opportunities to encourage, facilitate and stimulate local economies must be brought together to be analysed, quantified, packaged and communicated in comprehensible and digestible form among all spheres of government, and among all stakeholders of economic development". (Guidelines, para 91)

A national LED Forum is to be set up to "kick start", coordinate and oversee the process, providing it with technical instruments and "a multi-sourced funding mechanism combining government and off-budget sources". (Guidelines, para 92) The central tasks of the national LED Forum will be to improve integrated economic planning, co-ordinate access to finance (including investment finance), improve local government LED performance, assist local government in identifying local competitive advantage for territorial and social development and ensure the participation of previously disadvantaged communities. (Guidelines, para 68)

It gives to (central) government the driving role in LED and makes government finance and technical assistance the main source of resources. Opportunities are defined in terms of the availability of public resources. There is no suggestion as to how other actors would be motivated to contribute their resources to this effort. There is no discussion of the roles that the non-state actors could play. It is presupposed that the central state is in the best position to "analyse, quantify, package and communicate opportunities" to all other actors. This is in stark contrast to the rationale for LED, which is that local players are best positioned to assess local needs and opportunities. We will present below an alternative approach to the roles of various actors in LED.

⁷⁷ Although those of several other national departments and state owned enterprises (SOEs) are also important.

⁷⁸ South African Government, Address of the President of South Africa to the joint sitting of the Third Democratic Parliament, Cape Town, 25th May 2004.

5.2.2 Provincial government

The role of provincial government is essentially to coordinate national resources passed down to various provincial departments and correlate these to the priorities and initiatives of the IDPs. They are encouraged to set up LED fora to carry out the work of the National LED Forum at the provincial level. (Guidelines, para 93) This coordination is to take place within the framework of the NSDP, PGDSs and municipal IDPs as mutually adapted. Co-ordination between provincial departments “is a must” and the Premier’s Office as custodian of the PGDP would play a key role. (Guidelines, paras 93 & 94) Provincial departments are to take on LED “as a major delivery area” which municipalities must provide for communities and citizens. (Guidelines, para 95)

Specific mention is made of the Provinces’ sector policies, which should “highlight the concept of economic clustering”, described as “the crowding in of many different enterprises within a particular value chain”. (Guidelines, para 72& 92) The Provinces are also to play a role in provision of loans and grants for small producers either themselves or through finance institutions. (Guidelines, para 73 & 96) Opportunities are seen for local companies, cooperatives and NGOs in providing service delivery on behalf of provincial departments such as Health, Social Development, Education and Welfare, which are sources of major provincial expenditure directed particularly at poor communities.

In addition to the above, the Provinces are given an important role in building the capacity of municipalities to undertake LED and in supporting them in its implementation. They are to do this through technical economic development resources, funding, investor and business information”. (Guidelines, paras 76 & 96)

Again, as in the case of national government in relation to the country, the Guidelines give the driving role at the regional level to (provincial) government. The main challenge for the Provinces is to ensure that all public resources at the disposal of the provincial departments are coordinated to support the LED initiatives of municipalities. No distinction is made between the different spheres of LED, with their specific needs and opportunities. No attention is given to the roles of other actors and the resources they may bring to the process. LED emerges as an externally driven, externally resourced process with local actors, their resources and capabilities, relegated to the background.

5.2.3 Local government

The Guidelines describe District and Metropolitan municipalities as playing a “leading role” in stimulating the local economy. They argue that “The DMs and metros should be at the centre of a planning and networking web, ensuring that municipal policies and practices are conducive of a good environment in which businesses, cooperatives and NGOs can thrive and grow”. (Para 99)

This approach opens up a potentially far reaching set of roles for local government. However, reading through the two sections on municipalities (Paras 77-89 and 98-108), it is difficult to pin down clearly what roles are exactly envisaged and, even more so, how municipalities are to carry them out. We now attempt to extract and summarise the ideas about municipal roles that are scattered about in a number of passages.

Firstly, making national and provincial resources accessible to local actors appears to be the central role for municipalities. What is vital, argue the Guidelines, is for municipalities to make “good use” of the policies and instruments made available by national government and the provinces. Their task is to see that “national and provincial policies and instruments are available to the population in “useful and accessible” forms, and that what is on supply from government is relevant to the “opportunities and competitive advantages of their areas”. (Guidelines, para 80)

Secondly, local government has a role to play in facilitating capacity building and skills development. It does this through connecting with specialist providers such as the SETAs, Labour Centres, universities and other tertiary education institutions (Guidelines, para 86)

Thirdly, cluster development is highlighted in the section on municipal government, as it was with provincial government. Where cluster development has been identified, a set of roles for local government are set out. These include providing land, stimulating partnerships, facilitating business services, promoting marketing etc. (Guidelines, paras 102-3)

Finally, in paragraph 108, the Guidelines summarise a number of more specific roles of local government⁷⁹. These points read like cards from a facilitated planning exercise. While interesting in themselves, they provide no sense of where the priorities for municipalities lie or how they may best carry out such tasks. They lack the coherence needed to guide municipalities towards action. There seems little point here in trying to go through each of these disparate roles. Rather what we offer is a way of organising the roles of local government and other actors in the table below. We will then use this to comment on the approach taken by the Guidelines.

5.3 Roles of different actors in LED

⁷⁹ The bullet points cover the following: earn the hallmark of a capable municipality; emerge with innovative solutions to local challenges; improve their financial viability; learn to market their local area effectively; deal effectively with local-level crises and/or structural economic change; address localised socio-economic challenges (and promote local development) whilst contributing to broader national (socio-economic) objectives; mobilise local resources effectively; encourage local initiative; build local social capital; create the conditions for local action to emerge; seize development opportunities; tap into networks, programmes and funds; insert into an increasingly inter-connected global as a key centre of production, investment and innovation; plug the leaks in the local economy (i.e. retain income); develop local skills.

Table 1 below sets out the major categories of LED actors along the top row. Each of these categories could be disaggregated to provide a list that is much more detailed. Down the left hand column we list the main spheres of LED, excluding governance, which is treated in the next sub-section. For each category – enterprise, locality and community – a number of sub-categories are distinguished. These, too, could be disaggregated for finer grained analysis. The cells describe the main roles performed. They are intended to capture the core competence of the different actors, not to provide a detailed description of all the possible roles that might in different circumstances be provided by an actor. The table is intended to be illustrative and heuristic, not exhaustive.

In contrast with the Guidelines, which focus on what government does, particularly national government, the focus of the table is on what all the actors do who operate in one way or

Sphere of LED	Central and Provincial Government	Local government	Businesses & their organisations	Communities, CBOs & community enterprises	Specialist service providers
Enterprise development					
DS	Finances private BDS	Intermediation	Provision of some services	Users	Provision of specialised services to SMMEs
Finance	Finances specialised SMME providers & provides matching finances	Intermediation	Intermediation	Users	Specialised micro finance provision
Cluster & value chain	Can finance research & upgrade initiatives	Facilitates cluster & vc development	Involved in cluster & vc's & their governance	Community enterprise involved in clusters & vcs	Specialist research and facilitation
Market development	Can support regional & international research & facilitation	Facilitates local research & facilitation	Can facilitate membership involvement in MD	Can link enterprises & households to specialist providers	Provide specialist services in market development
Organisational support	Encourages business organisation & unity	Facilitates business organisation, where needed	Creates & maintains business associations	Creates and supports community enterprise	Can help facilitate producer & other business associations
Locality					
Policy, planning management of the territory	Responsible for NSDS and PGDSs	Manage the whole territory, the budget & the IDPs	Should be involved in IDPs and economic fora	Should be involved in IDPs	
Basic infrastructure & services	Principal role of coordination, financing & regulation	Important roles for financing, coordinating & delivery & regulation	Should play greater role in expressing need & priorities	Should be more involved in prioritisation, implementation & maintenance	
Environment	Providing legal framework & regulation	Regulation	Takes up business opportunities	Beneficiaries & take up opportunities	Specialists, standards setters & monitors
Community					
Asset base	Responsibility for setting national standards, providing finance & regulation	Responsibility for providing basic assets & services, regulation, in partnership with communities	Build and help maintain assets and provide some services	Build asset base in partnership with local government, play role in maintenance	Specialist providers, facilitators
Organisational support	Provides a national policy framework	Facilitates growth of local organisations	Creates own organisations	Creates own organisations	Can provide support for organisation building

Community enterprise	Supportive legislation such as on cooperatives	Provides a supportive environment	Linkages with community enterprises as source inputs & for sales	Help to form and support community enterprise	Specialists in service provision for community enterprises
Micro-finance	Policy framework & support institutions	Intermediation	Users	Users	Providers
BDS	Policy framework & support institutions	Intermediation	Users	Users	Providers
Market development	Provide supportive policy environment & finances for specialists	Intermediation	Beneficiaries	Beneficiaries	Provide market development services

other within the locality or upon it. This includes national and global actors who have a local presence or impact. Looking down the second column, the roles of national and provincial government in LED emerge. Those that stand out are policy, planning, finance provision to specialist service providers and regulation. Though it does not emerge strongly from the table, given the space limitations, coordination of policy and resources, the roles most stressed in the Guidelines, would clearly be included here. However, the roles that emerge most strongly in the enterprise and community development spheres (the left hand column) are intermediation (the “connector” roles described in the Guidelines) and facilitation, two important forms of enablement.

The table highlights the roles of three other clusters of actors, ones that do not feature much in the Guidelines. These are business and business associations, communities, CBOs and NGOs and specialist service providers. These are key actors at the local level and can also be prominent at provincial and national level where apex organisations exist. For LED as pursued in many other countries, they take leading roles, particularly in their own spheres. Thus, business associations are beginning to play leading roles in enterprise development as well as interacting through partnerships with local government and communities. Community organisations are well placed to play leading roles in community development and interact with government in infrastructure and service partnerships and with business through community enterprise involved in production of inputs or in sales.

The category ‘specialist service providers’ has been added to the list, a category that does not appear in the Guidelines. The reason for including them here is that they are emerging internationally key potential players in LED support. These may be for profit or non-profit organisations. They have made inroads into micro finance provision and the field of BDS is opening up to these actors. There is a wide range of other spheres in which they operate including research, training, extension work, ICTs, and legal services. These are organisations that work increasingly within markets. They generally draw on public funding to provide private services in response to market demand, but increasingly these services are being provided on purely market principles. In many areas they are more effective than public sector agencies in terms of cost, quality and timeliness of service delivery.

Working out the appropriate and complementary roles of local LED actors is essential, if LED processes and institutional arrangements for LED are to function effectively.

5.4 Institutional arrangements

The Guidelines mention a limited number of institutional arrangements for LED, without giving much insight into how different actors relate to them or the circumstances in which they may be most useful.

Meyer-Stamer, on the basis of experience in Europe and South America, warns that the creation of institutional arrangements should not be seen as an objective in its own right. They should emerge out of LED processes as their need and usefulness become apparent and should be closed down if they become redundant. This will save the time and energy that often goes into the building of institutions, which can detract from more useful LED work.⁸⁰

Table 2 presents some of the institutional arrangements that are given prominence in the literature. It relates these to roles of actors, stages in the LED process, costs and who bears them and their advantages and disadvantages. This is not intended as an exhaustive list or a full analysis, but only as a broad guide to the options.

5.4.6 Main features of institutional arrangements

Table 2 Institutional arrangements for LED

	Roles of actors	Stages in LED process	Costs & who bears them	Advantages	Disadvantages
Networks	Based on mutual interest & delivery of tangible results	Good place to start & can play roles at all stages	Low cost, local resources, resource sharing	Low cost, connects actors & is flexible	Needs personal & institutional commitment & vulnerable to break down
Units in LG	Highlights LG role in LED promotion	It is best if these emerge as need is demonstrated for them	Staff & administrative costs borne by LG	Gives LED higher profile & resources in LG	May not be priority & can dissipate resources
Fora	Draws in representative leadership of organised actors	May be a step towards operational & strategic partnerships	May be voluntary, costs can be shared or LG can cover costs	Builds relationships & shared vision	Can end as talk shop or platform for power play
Area partnerships	Multiple roles focussed on delivering results	Can follow a forum, can lead to an agency	Shared costs, shared responsibilities	Strategic, short run results oriented, flexible & rapid learning	Durability, maintaining coherence, accountability & poverty focus
Agencies	Concentrates LED functions in one agency, may or may not promote partnerships	Should ideally emerge out of strategic partnership, if need is clear	Resource-intensive, generally public funded	Concentration of skills & services coherence & durability, delivery oriented	Can duplicate roles, absorb resources, be bureaucratic & inaccessible, may need region base

Source: Hindson D (2004) Synthesis Report, Local Economic Development: Lessons and a Recommended Approach for the United Nations Capital Development Fund.

5.4.1 Networks

⁸⁰ Meyer-Stamer J (n.d.) "Institutional Structures in Local Economic Development: Do you need an LED agency?". jms@mesopartner.com

Networks are mentioned in several places in the Guidelines, but in a general way without explanation of how to establish or operate them and for what purposes. The focus is on municipalities as “the centre of planning and networking webs”. (Para 99) It is also suggested that “networks of champions and practitioners with a solid and up to date knowledge of the do’s and don’ts of LED must be formed throughout the countries”. (Para 84)

LED networks can arise out of local government or other actors’ efforts to convene local actors and build local partnerships. They facilitate information dissemination and create linkages across institutions and actors. They can support resource mobilisation, partnership formation and the linkages between diverse initiatives. To be sustainable, they need governance systems, so called network governance. In some circumstances, network governance systems have played crucial roles in promoting continuous learning, innovation and constant enhancement of the competitiveness of economic clusters and localities. Some of the international literature, particularly on high income countries, gives prominence to the role of LED networks in economic revival and enhanced competition. While informal networks abound in low income countries, fewer efforts have been made to consciously build, manage and maintain them with the explicit intention of promoting LED.

Local government is not the only or necessarily the most appropriate actor to build and manage LED networks. They are sometimes better formed at sectoral or sub-local scale. They can also connect local actors to regional, national and international networks. They do not cost a great deal to establish but need commitment to ensure their sustainability.

5.4.2 LED Agencies

The Guidelines give more attention to the role of LED agencies (LEDAs). District and metropolitan municipalities may form “an agency or similar service body” to carry out the “technical aspects” of LED. (Para 82) These are to be “structures, organized at the local level, where all the principal local stakeholders – public and private – objectively (sic) agree to take decisions about proposals and initiatives regarding sustainable economic development...” (Para 104) “The district or metropolitan Council must play the largest role, especially in poorer communities”.

The purpose of LEDAs is described as to “assure the technical conditions for the implementation of the initiatives, and (to) raise funds from private, public and donor sources, for financing them, with the main aim of providing opportunities for jobs through the promotion of the local economy and particularly through the establishment and/or consolidation of viable small and medium businesses and producer groups (such as cooperatives), with particular reference to the most vulnerable sections of the local population and through criteria of targeted support”. (Para 104) They will be subject to the monitoring of the national LED Forum. (Para 105)

Internationally, some donor agencies have focused on the creation of LED agencies (LEDAs) to undertake LED within regions or territories, an outstanding case being the International Labour Organisation (ILO). The ILO justifies its approach on the need to concentrate LED expertise that is otherwise scarce. It argues that LEDAs can help overcome conflict where local government is seen by some as illegitimate, for example in countries where communities have recently emerged from severe conflict, as in many case in Africa.⁸¹

LEDAs have the potential advantage of concentrating skills and enabling large initiatives to be undertaken. However, they may absorb greater resources than they create in setting up and running the organisation. In institutionally weak municipalities, it may be more effective to use scarce resources to build the capacities of existing institutions: local government, business, community economic associations, non-governmental and specialised regional bodies.

5.4.3 LED units within local government

According to the Guidelines, these are to be set up in all provincial governments, district and metropolitan municipalities and extended, where possible, to local municipalities. “They should report to municipal managers and should carry out their duties in close collaboration with local stakeholder groups, partnerships and fora”... (Para 85) It is not spelt out what they should do or what their relationship will be with other support agencies providing LED services such as the LBSCs, LEDAs and SEDA.

Some local authorities have sought to promote LED through the establishment of LED units, or even departments, within local government. They may be attached to departments such as planning or engineering, or exist as stand-alone units. Where LED is made a strategic focus, they have sometimes been housed close to the executive decision making structure of a municipality. They may give LED a higher profile, but may not always be the highest priority for a municipality operating with few resources and little capacity to ensure its basic functions are well performed.

5.4.4 LED fora

LED stakeholders’ fora may bring together different actors in a locality around economic development promotion. They can play an important role in breaking down hostilities between groups that have previously been in conflict and in building consensus around economic visions and broad policies. They may be an essential step where communities come out of recent backgrounds of intense conflict.

⁸¹ Van Boekel G & van Logtestijn M (2002) “Applying the Comprehensive LED approach: the case of Mozambique”, ILO. Geert.van.boekel@undp.org

However, these fora can also bog down the LED process. There are many cases in which they have become stages for political struggle over control of resources. They are generally not well suited to the operational aspects of LED which require more practical working relationships, including the putting together of partnerships for development delivery. LED fora can be transformed into advisory bodies servicing more operational structures, into implementation-focussed area partnerships or LED agencies.

5.4.5 Strategic area partnerships

These differ from broad-based LED fora in a number of ways. They are focussed on achieving rapid results that demonstrate success and build confidence and momentum. They seek to generate synergies between initiatives and to ensure they converge over time towards broadly stated development objectives. They involve the formation of operational partnerships to undertake joint actions.

They often work better than LEDAs because of their partnership basis, which ensures that LED initiatives are based on the commitment of the partners and their resources rather than external funding. They also enable the creation of multiple initiatives linked to the partnership. The multi-nodal structure of strategic area partnerships enables different actors to take the lead in the areas in which they have the greatest expertise.

5.4.7 Implications for the Guidelines

The Guidelines state clearly that LEDAs are an option, but not a requirement for DMs .It would help to add that the best way to proceed with the institutional arrangements for LED is to enable them to grow out of the interactions between LED partners within a locality as and when they appear to fulfil a need. It could also be added that there are a range of institutional options available, each with its strengths and weakness and each adapted to a particular stage of LED or set of LED tasks.

7. CONCLUSIONS

In this paper we have tried to show where the Guidelines seek to take LED in South Africa. We have also developed a number of arguments about the Guidelines, based on South African and international experience and literature. The most problematic feature of the Guidelines is defining the (central) state as its driver. This runs against the intentions of the Constitution, and much international experience, where LED is strongly associated with decentralised governance.

We argued that if LED is to remain state-driven, it is likely to reproduce many of the past weaknesses. One danger is that state funds intended for business enablement continue to be used in a less than optimal manner, leading to wastage of public resources and frustration in the business sector. Another is that the private sector and communities see LED essentially in terms of the availability of external public finances and shy away from involvement when this means bringing their own energies and resources to the process.

We have argued that the state is structurally well placed to play key roles in locality development, in particular by improving the regulatory environment for business and through financing and oversight of public infrastructure and services that support enterprise and community (economic) development. However, to be effective this will require transformation in the functioning of the state and its relationships to its development partners – turning it from intervention towards enablement. It will also require considerable capacity building at the level of local government, as recognised by the Guidelines.

We questioned the vision of creating “robust and inclusive municipal economies” in all Municipal Districts, as this encourages a voluntarist approach, one not grounded in an understanding of the real threats and opportunities of regionalisation and globalisation. In its place, we offered pointers towards a more realistic approach that recognises the powerful forces of integration and exclusion under globalisation and responds with spatially differentiated measures.

We have given attention to community (economic) development. This was the main focus of state-driven LED over the last ten years and in draft policy document entitled Focusing Development on the Poor. It also appeared in earlier drafts of the Guidelines. It has been dropped without adequate explanation and that this could lead to further confusion and frustration for LED practitioners in the field. We have argued that community economic development warrants a specific focus in LED because the circumstances, aims and forms of organisation of community and household businesses in poor communities differs, in some important respects, from those in the developed economy, while still being subject to market forces.

We have pointed to the need for a more complex conceptual framework for LED, and have offered a four way-division into enterprise, locality, community and governance as

a tool for analysis and action. Defining these spheres and the connections between them enables a more inclusive identification of LED actors, definition of roles and partnerships.

We provide a template for thinking about roles that includes not only government, but also other important actors in LED. We also provide a template for thinking about institutional arrangements. These, we argue, should grow out of working relationships amongst LED partners and be set up only if a demonstrable need arises. We discussed a number of such arrangements, showing at what stage they are likely to be useful and their potential strengths and weaknesses.

In this paper we have described where, in our understanding, the Guidelines seek to take LED in South Africa. We have argued instead for a more decentralised approach in which state resources are used to enable rather than to intervene. We argue that local actors should be encouraged to take the centre ground within their relevant spheres, but that they cannot succeed on their own. They will need to work from an understanding of the position of their localities in a globalising world and to muster all the actors and resources that this makes available to them.

ACRONYMS

ACS	Agricultural Credit Scheme
BBBEE	Broad Based Black Economic Empowerment
BDS	Business Development Services
CBO	Community Based Organisation
CED	Community Economic Development
DFID	Department for International Development
DM	District Municipality
DPLG	Department of Provincial and Local Government, South Africa
DTI	Department of Trade and Industry
EPWP	Extended Public Works Programme
GEAR	Growth, Employment and Redistribution Strategy
Guidelines	Policy Guidelines for the Implementation of Local Economic Development in South Africa, March 2005
ICT	Information and Communication Technologies
IDP	Integrated Development Plan
ILO	International Labour Organisation
ISRDP	Integrated Sustainable Rural Development Programme
LBSC	Local Business Service Centre
LED	Local Economic Development
LEDA	Local Economic Development Agency
LEDF	Local Economic Development Fund

LDP	Local Development Programme of the UNCDF
NAMAC	National Manufacturing Centre
NGO	Non-Governmental Organisation
RDP	Reconstruction and Development Programme
UNCDF	United National Capital Development Fund
MERS	Microeconomic Reform Strategy
MIG	Municipal Infrastructure Grant
NSDP	National Spatial Development Perspective
PGDS	Provincial Growth and Development Strategy
SEDA	Small Enterprise Development Association
SETA	Sector Education Training Authority
SMME	Small, Medium and Micro Enterprise
SOE	State Owned Enterprise
UNDP	United Nations Development Programme
URP	Urban Renewal Programme

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