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# Brushing against the grains of history: Making local economic development work in South Africa

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## Abstract

*Since 1994, South Africa has made great strides towards achieving many of the socio-economic goals outlined in the Reconstruction and Development Programme. However, millions of South Africans continue to live in poverty, excluded from the benefits of increasing prosperity. The structure of the South African economy and the continuing prevalence of apartheid spatial settlement patterns that consign the majority black population to the periphery of economic activity contribute significantly to the phenomenon. Such marginalisation not only ensures that the asset base of the poor is weak – growth does not ‘trickle-down’ (World Bank 2005) – but also that this base continues to be eroded through high transportation costs etc. Thus, government local economic development (LED) interventions must move beyond the traditional project approach if they are to systematically address these structural elements at scale. Moreover, the development of the multi-nodal institutional fabric required to address these challenges is mired in discussion around structural solutions to the design of the developmental state rather than focusing on the more important hybrid glue of networks, trust and relationships that underpins successful collective action. Hence, this paper argues that new ways of thinking and new forms of intermediation are required if we are to ‘...’brush against the grains of [apartheid] history’ to redeem the hopes of the past’ (Khan 2004: 45).*

## 1. Introduction

*..My Government’s commitment to create a people-centred society of liberty binds us to the pursuit of the goals of freedom from want, freedom from hunger, freedom from deprivation, freedom from ignorance, freedom from suppression and freedom from fear. These freedoms are fundamental to the guarantee of human dignity. They will therefore constitute part of the centerpiece of what this Government will seek to achieve, the focal point on which our attention will be continuously focused. The things we have said constitute the true meaning, justification and purpose of the Reconstruction and Development Programme.<sup>1</sup>*

Since 1994, from the RDP, through the Growth Employment and Redistribution (GEAR) strategy to the Accelerated Shared Growth Initiative of South Africa (ASGI-SA), the South African government has embarked on a number of initiatives aimed at altering the structure of the South African economy and addressing the legacy of apartheid. However, the articulation between these structural change interventions and the spatial dimensions of poverty and economic exclusion has seldom been explicit. Historically, this has had a major and detrimental impact on how local economic development (LED) is conceptualised and practiced within South Africa. This paper seeks to briefly review LED praxis in South Africa to date and provide some pointers as to how the impact of LED interventions might be improved going forward.

<sup>1</sup> First Inaugural Address by President Mandela to the Joint Sitting of Parliament quoted in the Preface to the RDP White Paper (1994).

## 2. LED practice in South Africa to date

The purpose of LED is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth, employment generation and sustainable development as a whole. Typical LED interventions may include:

- Improving the local business investment climate
- Investment in hard infrastructure
- Investment in soft infrastructure
- Investment in sites and premises for business
- Encouraging local business growth
- Encouraging new enterprises
- Promoting inward investment
- Sector and business cluster development
- Area targeting/regeneration activities
- Integrating 'marginalised' workers

Thus, out of the 12 Pillars of Competitiveness outlined in the World Economic Forum's Global Competitiveness Report 2007/8 (2007:3-6), 5 directly or indirectly relate to space and location – long recognised as key factors in driving national competitive advantage (see also Porter 1990). Hence, how a country manages its economy – not just at a national, macro level but also at regional and local levels – becomes critical.

Recent studies (World Bank 2005, Pieterse and Van Donk, 2008) suggest that the results of municipal-driven LED interventions in South Africa to-date have been mixed. The driving antecedents of our limited success can be grouped into four key gaps, namely:

- The information gap
- The strategic gap
- The institutional gap
- The financial gap

Each of these gaps shall now be addressed in turn.

### 2.1 The information gap

Development visions abound within government offices, painstakingly pored over during countless strategic planning sessions only to languish on dusty walls thereafter – largely due to the false assumption that the purpose of a vision is to be purely inspirational rather than practical. However, as Senge *et al* (2008: 324) point out, 'it is not what the vision is, it's what the vision does' that counts.

Hence, the importance of developing *intelligent* visions based on a sound understanding of the local space economy and its footprint. This not only entails undertaking socio-economic analysis to gain a deeper understanding of the area's comparative advantage and potential areas of competitive advantage, but also involves developing effective tools to model different economic scenarios and investment impacts. It is not unusual to find economic development strategies that outline a wonderful vision, analysis of the area's advantages and priority sectors or corridors, only to find that this is not linked to concrete growth and related investment targets at an aggregate and sector level. Without any link between the desired outcome and the means to get there, the inevitable result is a descent into piecemeal project-based strategies where it is somehow *hoped* that the projects identified will deliver the jobs and growth wished for.

Whilst a number of tools and models already exist – e.g. the Social Accounting Matrix, the General Equilibrium Model, the Municipal Services Financial Model (MSFM) – none are currently able to model the critical link between sector growth, infrastructure and other economic development investments and the long-term financial viability of the relevant government entity. This cyclical and mutually-reinforcing relationship is critical to driving regenerative growth. In addition, given the long-term nature of structural change interventions, such modeling enables the development of a 'balanced portfolio of visions' (Senge et al 2008:343) whereby 'snapshots' of the future are captured at different points in time, thus managing the tension between current reality, short to long-term goals and the journey between them.

This, in turn, is dependent on improving the quality and quantity of socio-economic data not only at a local and household level but also in terms of broader trends. For example, it is not unusual to find that different surveys produce differing results in terms of population size as well as range and size of households. Moreover, whilst demographic analysis shows increasing levels of urbanisation (Pieterse 2008), it also points to strong levels of fluidity and flux, calling into question traditional binary approaches to urban and rural development and thus re-emphasising the need for a centrally integrated approach to spatial development.

Whilst the collection and analysis of this data would need to be driven at a national level, there are other vital pieces of information which municipalities themselves need to source. For example, some municipalities still do not have a full understanding of the ownership of land and other assets in their area, making it very difficult to plan for – let alone 'manage' – the local space economy.

The private sector also has a critical role to play in bridging the information gap. This particularly relates to confirming the reliability of sectoral growth projections and coefficients within an area, based on their local and industry knowledge. Moreover, understanding the goals and expectations of local private sector players, as well as the nature and different capabilities of the private sector at an individual firm and associational level, is key to determining what type of economic development interventions are more likely to work in terms of stimulating business growth and investment.

Similarly, understanding the dynamics of social forces within communities is also critical, not only in terms of gaining buy-in to LED initiatives but also in terms of potential mitigants to successful growth (e.g. dysfunctional social patterns that may undermine the formation of social capital).

## 2.2 The strategic gap

For much of the past 15 years, there has been a lack of consensus within and outside government about the definition and optimal approach to LED. Thus, LED interventions have been characterised by:

- A focus on projects rather than strategic programmes
- Different understandings of what constitutes LED
- Constraining paradigms

Many, particularly smaller municipalities, have adopted an *ad hoc* project-based approach rather than developing a comprehensive, integrated strategy embedded in a structured implementation programme. This was driven in part by the terms and conditions of the DPLG<sup>2</sup> LED Fund, which has now been collapsed into the Municipal Infrastructure Grant. In addition, the project approach has been fueled by the tendency to see LED as a state-centric, sector strategy – delinked from the work of other municipal departments, often placed at the periphery of power within the organisation and with very little input, (let alone ownership!), by the private sector.

As LED increasingly became associated with micro-level projects, it lost currency as an effective and sustainable development tool. The result was that some municipalities – notably the Metros – rejected LED in favour of economic development strategies which they saw as more comprehensive and operating more at the municipal/macro level. City Development Strategies are an example of this type of approach, which was originally spearheaded by the Cities Alliance and has now been adopted by most South African metros under the auspices of the South African Cities Network.

Even where comprehensive, integrated strategies have been employed, their driving paradigms have often limited their impact, resulting in an inadequate balance between pro-growth and pro-poor interventions. Moreover, even in cases where some balance exists, the strategies developed are often not adequately spatially referenced.

If, in addition to growing prosperity, reducing poverty and inequality are at the core of the South African development project, then an adequate and credible LED strategy must seek to address the structural legacy of apartheid relating to labour market access, the skewed distribution of assets, the monopoly structure of the economy and spatial marginalisation.

Increasing the asset base of the poor is central to fostering shared growth, not just in terms of income but also capital. With regard to capital, this *inter alia* would involve the conversion of existing dead

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<sup>2</sup> Department of Provincial and Local Government (DPLG) now Cooperative Governance and Traditional Affairs.

capital into fungible or productive assets (see De Soto 2000) which would require reconfiguring local housing and land markets (Urban Land Mark 2007, Misselhorn 2008) as well as taking steps to reduce the costs of formalisation. The former would also require significant regulatory reform as many have argued (Berrisford and Kihato 2008, Mammon 2008) that inherited and unmodified town planning ordinances and zoning schemes serve to preserve apartheid land-use rights.

For such strategies to be viable, they must go hand-in-hand with other forms of asset formation, including:

- Improving access to basic services (including health and shelter).
- Improving access to social safety-nets and the extent of protection against external shocks.
- Developing local initiatives to improve skills levels and access to relevant information.
- Increasing access to economic opportunities through reconfiguring transport infrastructure and housing settlements to promote densification.

Whilst debates continue regarding the most effective means to address spatial marginalisation, (e.g. should informal settlements be recognised and formalised? Should attempts be made to stem the tide of rural migration or is urbanisation a good thing?), there is no question that our capacity to plan and manage sustainable human settlements needs to be vastly improved. Central to this is the ability to operationally integrate development strategies with spatial development, land use management, infrastructure investment and financial sustainability strategies. The perils of the failure to do so are aptly portrayed by Menguete, Khan and Vawda (2008: 183) who, in reference to the housing sector, state:

*...had the state been able to deliver and match the pace of demand, the 'inability of recipients of subsidy housing to pay for municipal services and taxes, [would have] meant that such housing projects [would] have been viewed as liabilities to municipalities' (DOH 2004:4). Spatial peripheralisation, sterile living environments, public sector under-investments in essential infrastructure in new settlements, unabated financial sector redlining of impoverished localities, and rising poverty and unemployment were collectively a few of the ingredients of a lethal cocktail that stymied the activation of housing markets in old and new residential settlements. Subsidised housing as an asset-accumulation vehicle and wealth generator for the poor and an instrument for spatial restructuring – being key objectives of the 1994 housing intervention – were beyond the reach and grasp of the poor and the State.*

In terms of income, recent studies conducted by the Presidency under the auspices of the Second Economy Strategy (2008) reveal that the current structure of the core economy not only limits the scope for new job creation, new ventures, and SME's but also impacts on even the most survivalist subsistence activities (Philip 2008). Thus, new and decent work is likely to come mainly from growth in the more the developed/formal/core economy (including the more formal end of the SME sector). This in turn brings to the fore the importance of scale. LED strategies can not just fiddle at the

margins (e.g. an isolated focus on informal settlement upgrading) or just consist of ad hoc projects (e.g. business hives) but must focus on high-impact, systemic interventions. Job creation strategies need to promote labour absorption as well as focusing on improving the quality of jobs created and increasing the participation rates of vulnerable groups. This means, depending on the comparative and competitive advantage of an area, focusing support on labour absorbing sectors and – from a government perspective – improving the efficacy of Phase 2 of the Expanded Public Works Programme (EPWP), complimented by innovations such as the Community Works Programme (see Philip 2008). With regard to SMME development, strategic areas of focus would include reducing barriers to entry and the costs of formalisation; improving market access; and creating forward linkages to the formal sector through, for example, integrated value chains.

Ensuring localisation within the context of market integration is another critical factor. All too often the benefits of economic growth resulting from LED interventions bleed out of a local area to more affluent beneficiaries and neighbourhoods. Hence, the importance of creating local markets, which can be done through a number of ways, e.g.:

- Forging supplier value chains/distributional networks between local SMMEs and large companies.
- Improving the power to consume by increasing the affordability and availability of commodities (e.g. the 'single serve' revolution – Prahalad 2005) and/or providing incentives for the use of local labour.
- Fostering local social and economic networks as well as innovative platforms for trade and exchange amongst local entrepreneurs.

Fortunately, the past two years has seen the advent of new policy frameworks such as the National Spatial Development Perspective (NSDP)<sup>3</sup>, the Department of Provincial and Local Government's (DPLG) LED Framework<sup>4</sup>, the Department of Trade and Industry's (DTI) Draft Regional Industrial Development Strategy (RIDS)<sup>5</sup> and the Department of Environmental Affairs and Tourism's (DEAT) National Sustainable Development Framework<sup>6</sup>, which begin to address some of the conceptual confusion around the nature of LED. These frameworks, along with initiatives such as the Accelerated Growth Initiative of South Africa (ASGI-SA), serve to inform and compliment cyclical growth and development strategies at a provincial and municipal level. Some of the key ideas emerging out of these frameworks include:

- A targeted approach to development spending aimed at maximising economic potential to address historical inequities in the space economy.
- A non-jurisdictional perspective, recognising that economic potential often cross-cuts municipal and provincial boundaries, thus requiring a broader set of institutional frameworks and interlocutors.

<sup>3</sup> Policy Coordination and Advisory Services (2006), The National Spatial Development Perspective.

<sup>4</sup> Department of Provincial and Local Government (2006), National Framework for Local Economic Development in South Africa (2006 – 2011).

<sup>5</sup> Department of Trade and Industry (2006), Draft Regional Industrial Development Strategy.

<sup>6</sup> Department of Environmental Affairs and Tourism (2007), National Sustainable Development Framework.

- Hence, the ability to capitalise on non-local relationships is crucial to understanding the role that regional, national, continental and global processes play in shaping local economies. Scale thus becomes key, with local interventions needing to be posited within a regional framework.
- Economic clustering is also critical in promoting the innovation, collaboration, knowledge transfer and networking required to support competitiveness in the new economy.
- A focus on developing institutional strength through building associational networks, highlighting the importance of social capital and social inclusivity as well as the role that culture – along with identity, meaning and image – can play in fostering economic development and shared growth.
- A systems approach, aimed at mainstreaming sustainability solutions to produce innovation at scale.

However, these frameworks are not without contradictions. For example, the definition of economic potential and where it does or does not lie is still a matter of debate<sup>7</sup>, whilst macro economic policies such as ASGI-SA and the National Industrial Policy Framework are not explicit in their spatial implications. Others have also argued (Pieterse and Van Donk 2008) that tensions between long-term strategic outcomes and short-term delivery imperatives resulting in a focus on numerical delivery targets, serve to undermine national policy objectives such as sustainable human settlements and integrated LED strategies that require a more holistic, programmatic approach.

Furthermore, the role that different departments take in sponsoring LED seems to be a matter of contention<sup>8</sup>. This is in part indicative of the continuing weakness of central planning capability at national government level. Thus, whilst various donor and government capacity building programmes have been put in place to support the implementation of the policy frameworks, such programmes tend to be poorly conceptualised and executed due to the fact that:

- They tend to be consultant driven and hence are not embedded in the day-to-day operations of the recipient entity, which undermines their impact and sustainability.
- They all rely in one form or another on the recipient entity having the requisite capacity to draw upon and strategically align different instruments to build key local networks and drive a coherent development agenda. In most cases, this capacity does not exist at a municipal level and even where the capacity does exist, it's often too caught-up in managing day-to-day imperatives – the ongoing challenge of balancing urgent outputs with strategic outcomes – to find time to stand back and look at things from a fresh perspective.

<sup>7</sup> The NDSP and the Draft RIDS define areas of economic potential slightly differently whilst the NSDP has not been unanimously adopted as the core driver of government investment.

<sup>8</sup> Both DPLG and DTI see themselves as playing a central role in driving LED at the municipal level, whilst the Presidency has also embarked on its own support programme to rollout the NSDP.

Moreover, the lack of methodological consistency across these programmes<sup>9</sup> has the potential to not only waste resources (i.e. work has to be redone rather than one programme building on another) but it can also lead to a perpetuation of underdevelopment since the linkages in many of these programmes between development strategies, spatial planning, infrastructure planning and financial sustainability remain conceptually and programmatically weak.

So, whilst the policy frameworks in place point in the right direction, national policy and programmatic inconsistencies perpetuate conceptual confusion regarding what LED should be and serve to undermine integrated approaches to development. Hence, changing actual practice on the ground remains a major challenge.

### 2.3 The institutional gap

The institutional capability of government is central to the success of an LED programme, particularly relating to creating an attractive business climate and coordinating multi-sphere, multi-stakeholder initiatives.

The ability to influence where and in what form the private sector invests continues to be a challenge for many governments. However, within the South African context, failure to do so has often resulted in an exacerbation of social and economic exclusion. For example, large shopping malls promote the ghettoisation of existing town centres and tend to be dominated by large, established retailers who do not feed their profits back into the local community whilst squeezing out local SMEs. This does not mean that shopping malls are automatically a bad thing, but their design and location is crucial. Thus, central to the task of attracting and managing investment is the development of appropriate, spatially referenced fiscal and incentive frameworks backed-up by efficient administrative processes along with transparent mechanisms for procurement and contract management. The availability and effectiveness of public sector risk mitigation instruments – including the enforcement capabilities of the local state – is also a key factor in influencing private sector investment decisions.

Yet, uncontrolled investment is not just a private sector problem. The NSDP describes its key purpose as being:

*...to bring about a synergy and complementarities in terms of the spatial effects of government action, with a view to maximising overall social and economic returns on government development spending. In order to do this, [what is required] is a shared understanding of the state of the space economy and agreement on the set of guidelines or principles in terms of which infrastructure investment and development spending will be undertaken by different spheres of government... (NSDP 2006)*

<sup>9</sup> For example, the DTI Khulis'notho project makes no provision for linking the LED strategies that are to be developed in municipalities to spatial development frameworks (SDFs). At the same time, DPLG has gone on a major drive to encourage all municipalities to put in place SDFs and Consolidated Infrastructure Plans (CIP) and whilst the department has emphasised the importance of linking these processes, in practice they are driven by different groups of consultants and are neither methodologically linked nor programmatically sequenced. On the other hand, National Treasury has yet to recognise the CIP process, apparently due to the fact that the MFMA already encapsulates a long-term infrastructure investment planning process in the form of the Service Delivery and Budget Implementation Plan.

These common platforms of action need to be articulated at a local level through spatial development frameworks (SDFs) that work to bind a number of local and government stakeholders to a common vision of that area's future i.e. a simple, single visual representation of the 'to be' state. Whilst the number of municipalities with SDFs in place is growing, their efficacy is undermined by the absence of requisite systems and processes that would enable the municipality in question to guide investment. This includes inadequate land-use management systems as well as inefficient processes within municipalities and relevant departments relating to environmental impact assessments, land claims and land transfers.

Moreover, in the majority of municipalities (including some metros and secondary cities) as well as some other spheres, the requisite capacities to develop and/or implement development strategies is simply not in place (e.g. business intelligence systems, LED expertise, infrastructure investment planning, programme management and stakeholder management capabilities etc.). Hence, strategic and planning integration within government entities at all levels as well as between spheres and agencies of government remains a major challenge, significantly impacting on the efficiency and efficacy of development initiatives. This is further exacerbated by a lack of legislative clarity regarding the role of the different spheres with regard to planning (Berrisford and Kihato 2008). Others argue (Pieterse and Van Donk 2008) that the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) also militate against interdepartmental and multi-sphere integration and synchronisation. Whilst the structures setup under the auspices of the Intergovernmental Relations Framework Act 13 of 2005 go some way to promoting integration, ongoing competitive behaviours between departments and administrations suggests that building collaborative *relationships* amongst government officials across the 3 spheres is also a key imperative.

This in turn highlights the importance of the quality of political and administrative leadership within government, particularly relating to effective management, visionary leadership and the ability to make hard tradeoffs. Pieterse and Van Donk (2008:65) state that the:

*...international literature suggests that holistic development programmes require a high capacity for creativity and innovation... The reason for this is that the technical, institutional, political and economic complexities of these programmes require managers who can work adaptively and not procedurally according to a rule book.*

However, traditional approaches to the teaching and practice of public administration, within a context of Weberian bureaucracies, have tended to emphasis rule-based processes of management. Thus, the instinctive policy response to dealing with the complexity associated with integrated development is to box, stabilise (Pieterse and Van Donk 2008:66) and even wish it away by dumbing it down into manageable chunks – projects, short-term numerical targets etc. Of course, with complex systems, one should not try to eat the whole elephant at once. However, the functioning of the system needs

to be understood before one can effectively intervene in it and understand which part of the elephant one should optimally start with (Senge 1990). Thus, the paradigms which determine how the state is designed and functions as well as those which drive how public leaders and managers are developed need to be critically reviewed. This must include developing effective strategies to build institutional depth within a context of high levels of political and managerial flux. Therefore, the high rate of turnover amongst staff and political leaders remains a major challenge. Within the context of the growing personalisation of institutions, this not only renders past capacity building investments null and void but also cripples institutional memory and progression, and in turn the strategic continuity, required for the successful management of long-term development programmes.

The multi-jurisdictional, multi-stakeholder nature of LED interventions also suggests that, over and above the institutional capability of the state, the broader institutional fabric within a local area is crucial. As Ketels (2008) points out, successful companies are those with good global linkages as well as good local linkages – with the latter being critical for achieving competitive regional advantage. This means building relationships between firms is essential (i.e. clusters), whilst broader ‘Triple Helix’ relationships (business, government and universities) are also central to making clusters work. Yet, in many areas, business associations and government-to-business networks continue to be largely racially defined. Whilst national frameworks promote LED Forums as the primary method for building multi-stakeholder relationships, practice<sup>10</sup> suggests that they are seldom the most effective tool for breaking down historical barriers and building trust amongst wary stakeholders.

Over the past 15 years, organs of civil society have also been weakened whilst Evans (2002:12) warns against ‘the romantic vision that ‘community’ automatically entails homogeneity and unity of purpose, [this] is misleading even in traditional rural settings; [whilst] urban communities contain an even more daunting spectrum of interests, identities and political positions’. Social capital can act as both a force of inclusion and exclusion. Thus, Harrison (2004) argues that understanding the depth and nature of social capital within different local contexts is critical. Pieterse (2008:37) further suggests that – within a context of strong, competing socio-economic interests – consensus dependent development approaches underemphasise and under-theorise contestation-based politics. Hence, the tradeoffs that need to be made to drive shared growth are not made explicit, with the result that those with existing power and influence are able to reproduce their interests at the expense of the poor. Therefore, the importance of understanding the role of power and the terrain of struggle in determining the relationships between social actors and the state, as well as within the state, cannot be overemphasised.

Hence, LED capacity building programmes cannot afford to just focus on the capacitation of LED units or development agencies but need to understand the systemic elements of institutional failure

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<sup>10</sup> This came through strongly during the stakeholder interviews conducted as part of the Gap Analysis process in the launch sites of the DBSA LED Initiative.

and address them accordingly. We also need to be cautious about over-simplistic constructs of bottom-up development. Rather, the critical question is what is the articulation between the mediating role of the state in balancing different interests versus the need for public ownership and accountability? Furthermore, what kind of socio-institutional strategies are required to promote a robust civil society with the capability to move beyond protest politics to solution development, whilst at the same time building a porous state embedded in a multiplicity of individual and collective systems of accountability?

## 2.4 The financial gap

Whilst there are a large number of development finance instruments, the poor credit rating and weak revenue base of many municipalities bar them from accessing standard concessional loan instruments. Some municipalities also struggle to access MIG and other government grants due to internal capacity constraints, (see Table 1 derived from the DPLG National LED Framework, regarding the intricacies of accessing government grants). In addition, much of the money available is conditional – e.g. MIG is strongly tied to the eradication of backlogs – which makes it difficult to access funding for other types of economic development initiatives. Thus, ongoing support needs to be provided to municipalities to access government grants whilst development finance institutions have a critical role to play in developing innovative financial instruments targeted at the riskier end of the market.

At the same time, where municipalities do manage to access grants or loans, they often struggle to spend and account for it due, *inter alia*, to inadequate operational systems, a lack of financial management capacity, weak financial management systems and poor corporate governance. This suggests that the problem is as much an institutional one as it is financial one. Moreover, in instances of structural dysfunctionality, (i.e. very weak economic potential, total grant dependence and institutional instability), LED initiatives *by themselves* are unlikely to have a significant impact. This suggests that the Presidency's proposal regarding asymmetry (PCAS 2003) may be more viable in the long-term.

What is also clear is that the gaps identified above tend to be systemic and mutually reinforcing in nature with the net result being that the municipalities and communities most in need of innovative economic development strategies to tackle poverty, unemployment and boost financial viability are those with the least capacity to develop such strategies, drive collective action and make the investments required. If new and innovative approaches are not developed to improve the impact of LED interventions, too many South Africans will continue to live in the margins, with the freedoms they yearn for at best a distant dream.

**Table 1: LED funding sources (DPLG 2006)**

Funding sources	The challenge
DPLG – Municipal Infrastructure Grant (MIG).	The current level of transfers supports mainly basic infrastructure development. This in itself needs to be spent and utilised better by municipalities. The MIG does support infrastructure for economic development. This portion could be increased. Infrastructure for street traders for example could be developed utilising the MIG.
National Treasury – Neighbourhood development partnership grant (NDPG) and urban development incentives.	Provided for municipalities to organise themselves and apply for the NDPG over the 2006-2009 MTEF period. Inner city strategies to maximise usage of property development incentives from urban development zone program. Consideration should be given to expand this instrument to areas outside inner cities.
Sector support (National departments and State Owned Enterprises). Includes range of dti support to give effect to the Industrial Policy Framework for customised sector development, enterprise support, critical infrastructure (through the Regional Infrastructure Development Fund) and spatial development initiatives.	There is a range of funding sources available for sector specific initiatives from national departments. The challenge is both for better communication on the side of national departments about these funds and for municipalities to be more proactive in linking with these initiatives. Better institutionalised intergovernmental coordination at district/metro level should address this challenge through joint planning. Many sector programs are also delivered directly in municipal areas. This together with funds that can be channeled through municipalities needs to be organised better so that the integrated impact and outcomes optimises economic development in the local space.
Development Finance Institutions (DFIs) such as IDC, DBSA, National Empowerment Fund, IDT, NDA; and private banks, venture capital companies.	The challenge is to link local enterprises to these support instruments more effectively through better communication and information. Growing and expanding the number and size of local businesses is the key for local economic development. Mobilising corporate social investment and support for cooperatives needs to be expanded through public-private partnerships.
Donor funding	Coordination and ownership of donor support by government is critical. The mainstreaming of these support instruments into the programs of government is required. The large European Union support for LED in KwaZulu-Natal, Limpopo and Eastern Cape for example has to be optimised around governments vision for local economies in these areas expressed through the Provincial Growth and Development Strategies (PGDS) and LED programs.

### 3. Making LED work

If LED initiatives within the South African context are to be successful, specific interventions need to be developed and targeted at the four gaps identified above (i.e. information, strategic, institutional and financial).

#### 3.1 The strategic and information gap

In terms of the strategic and information gap, the advent of the Planning Commission (Cronin 2008) presents an opportunity to develop a clear, long-term growth path for the country. Here, it is important

to note that in many newly industrialised countries such as China and Japan, planned urbanisation and cluster development is driven through national processes rather than simply allowing sub-national governments to do their own thing (see Hosoya 2008).

The purpose of such a path would be to develop a commonly understood logical framework which indicates how different development factors relate to each other and the balances and tradeoffs that need to be struck to produce sustainable, specific outcomes. Without such a framework, there are currently no criteria to determine what should be the relationship between different development outcomes and which outcomes should be leading, nor what critical path should be followed to achieve which outcomes, within different scenarios. In turn, such a critical path would enable effective policy integration and programme prioritisation; guide resource allocations, macro spatial planning and state investment decisions; and inform the roles that different institutions should play and the nature of the institutional capacity required to facilitate its implementation. Such interventions would need to be coupled with a policy review process and the development of an integrated implementation programme that seeks to address outstanding regulatory and programmatic contradictions.

The information gap would also need to be addressed in an ongoing and systematic manner. This would require building capability, complimentary to the work of Statistics South Africa and Centre for Scientific and Industrial Research, to mine and analyse comprehensive socio-economic data at local and regional levels on a regular basis (rather than every 10 years). This must be complimented by more robust economic modeling processes to better assess whether the investments proposed are indeed the most appropriate and likely to deliver the projected growth, jobs and revenue required.

The Development Bank of Southern Africa (DBSA) has already started working on a Regional Economic Model (REM) using economic multipliers to calculate the impact of an investment on a regional economy. The multipliers are based on available provincial multipliers, adjusted for the known leakages of the local economy. There are three types of economic impact that such multipliers capture:

- Direct effects – the changes (growth) in economic activity as a direct consequence of the investment in the region (e.g. a new furniture factory – its output increases that of the region).
- Indirect effects – growth in the business of suppliers to the directly impacted businesses (e.g. increased business of the suppliers of raw materials and services to the new factory).
- Induced effects – economic growth stimulated by the spending of additional workers employed as a consequence of the above two effects.

This is then linked to the Municipal Services Financial Model (MSFM) which models the financial viability of a municipal infrastructure programme, in terms of both capital and operating accounts. Certain economic factors, such as growth in gross value add (GVA) and growth in labour remuneration, will impact this viability. Hence, projections from the REM relating to GVA growth, growth in

labour remuneration, changes in rateable property values and demand for water and electricity by non-residential consumers are drawn into the MSFM, allowing a more nuanced and realistic assessment of long-term municipal financial viability to be made. Initial runs of the model suggest that the size of investment required to have a significant impact on a local economy is vast – again re-emphasising the issue of scale, the need for national prioritisation and the crucial importance of crafting realistic, intelligent visions.

The new Planning Commission also presents an opportunity to develop a clear articulation of the relationship between top-down and bottom-up planning processes. To do this effectively, one would need to delink issues of political governance and accountability versus administrative subsidiarity to allow for far more innovative and versatile institutional forms to emerge, linked to the real capabilities of the state. This would go hand-in-hand with the rollout of effective tight-loose management strategies (outcomes and outputs being tight; inputs and activities being loose within guided parameters to allow for innovation) coupled with a shift from the 'politics of loyalty' to the 'politics of performance' as the driving paradigm of public management.

### 3.2 The institutional gap

From an institutional perspective, therefore, process-based rather than structural solutions hold the key to effective local economic development. This requires new forms of intermediation and process facilitation that seek to address systemic factors.

#### Intermediation

New forms of intermediation include:

- Adopting a holistic approach to building the asset base of the poor, and human capabilities in general, necessitating the formation of new local alliances that move beyond the conceptual boundaries of 'unfunded mandates'. A good example of this is the partnership between the Theewaterskloof Local Municipality and local FET colleges to boost artisan development in the area.
- Working with business and NGOs to help SMEs move up the capability curve and become integrated into existing value chains. Independent intermediaries such as the Cape Craft and Design Institute<sup>11</sup> offer a potentially scalable model for this purpose.
- Assisting municipalities access finance through facilitating investment by national private sector funding institutions, international agencies as well as local private sector investors, using development finance to plug the 'credit gap' and act as a key risk mitigation instrument. The DBSA LED Initiative is one such example of this approach.

<sup>11</sup> See [www.capecraftanddesign.org.za](http://www.capecraftanddesign.org.za).

## Process facilitation

New forms of process facilitation include:

- Building trust-based relationships between key players at the local level and across spheres to drive collective action. Hence, the choice of the process facilitator is critical in terms of their local credibility and political clout/influence.
- Moving beyond a government perspective to address and scale-up effective strategies for building social capital amongst business associations and communities.
  - With regard to the former, Ketels (2008) points out that getting companies to cooperate without them feeling that they are losing their competitive advantage is not easy. At a local level, this is made even more difficult due to the fact that many associations are organised on a town basis rather than at a sectoral or district level. This requires dedicated process facilitation to help businesses see the 'bigger picture' and develop a common regional agenda.
  - From a community perspective, Slum Dwellers International (SDI) has had some significant successes in mobilising marginalised communities. Pieterse (2008:119) quotes the following analysis by Mark Swilling (2006):

*The significance of the approach used by the SDI associated initiatives is that they have plaited together strands of developmental knowledge that are normally compartmentalised into separate types of development practice: the key role of micro-finance in development; grassroots community-organising to build collective solidarities; technical innovations aimed at doing more with less; challenging existing inequalities at the political level; pragmatic autonomism within civil society; the specificity of the city and in particular the socio-cultural context of the urban poor as a field of organisation practice; and subordinating professional knowledge and roles to the organised chaos of community leadership. Unsurprising, as with any kind of synthesis, it makes everyone who has not seen the synthesis unhappy. The pragmatic autonomism will be criticised for being reformist because it 'lets the State off the hook'; the emphasis on continuous challenge and engagement will be criticised for being too political and confrontational thus putting potential concessions at risk; micro-finance combined with community organising will be criticised by the micro-finance purists for being irresponsible; and traditional rights-based community organisers will see micro-finance as a waste of energy when the real task should be to put pressure on states to inject more development finance. Above all else, synthesis often makes a story too complex to tell in short and simple enough ways for academics, government officials, the media, development specialists and most social activists to understand. It works in communities because this complexity is an everyday reality.*

- Using systems analysis to understand the complexity of institutional failure and the combination of organisational learning methodologies required to address it. This does not mean one should attempt to address all aspects of institutional failure within an LED programme. However, such an analysis is critical in identifying the key institutional risks to the programme and where capacity needs to be built to ensure that the programme is successful. Whatever the other organisational weaknesses, one must always begin by putting first things first – locating LED at the strategic core of the organisation and building the capabilities of that core in terms of:
  - Leadership and management, which includes providing coaching with regard to systems thinking, problem analysis, and integrated LED strategies as well as ongoing shoulder-to-shoulder advisory support to manage the politics of the process.
  - Project facilitation (evaluation and packaging) and programme management to promote organisational integration in the short-term.
  - Development planning and management, including information management, scenario planning and regulation.

### 3.3 The financial gap

As indicated above, tackling the financial gap is as much a strategic and institutional issue as it is a financial one. New grant and concessional loan instruments need to be developed that combine access to finance with strategic and institutional support, thus focusing investments on interventions that are likely to have the most developmental impact and direct or indirect long-term financial return. Such instruments would also serve to mitigate front-end financial and operational risk, thus enabling the development of innovative debt financing structures involving other commercial and non-commercial financial institutions. In this regard, DFIs such as the DBSA have a pivotal role to play in facilitating the development of such innovative instruments and crowding-in other financial institutions.

## 4. Conclusion

At the end of the day, however, there is no single model of reform and no off-the-shelf solution. LED requires constant innovation. In addition, given its political nature, how different role players define their interests and opportunities becomes key. Fundamentally, therefore, LED has to begin with creating a change of mind. An example of this is the Uganda Rural Development and Training (URDT) Programme which began in the mid-1980s (Senge et al 2008:367-369):

*...The biggest obstacle to development in Uganda', said its co-founder [Mwalimi] Musheshe, '...was fatalism, ...people who believed they could do nothing to shape their future. All the outside help in the world could do nothing to change this; it only reinforced it'....The programme depended from its beginnings on people's desire to learn....Many came expecting 'the usual handout' says Musheshe, but 'we gave them no money. We stuck to our vision that we were not there to help people with*

*handouts but to develop their capacities to help themselves'.....Over a decade the plan for the initial small group of villages grew into an integrated development vision for the larger district, which eventually included improved roads, microcredit institutions and a local savings and loan, new schools, a vocational institute to develop entrepreneurial abilities and trade skills, hundreds of new shops and small businesses and prosperous farms and the first community radio station in eastern Africa, which today has some 4 million regular listeners.....'All people want to live a life guided by their own choices' says Musheshe, 'Hundreds of years of exploitation have robbed many Africans of faith in themselves. We have helped people reconnect with this faith and with one another...*

Only when we can facilitate the adoption of new ways of thinking and perceiving will we be able to lift people out of the fallacy of fatalism towards the audacity of hope.

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