

**Working
Paper Series**

2 / 2009

**Local Economic
Development**



Development Bank
of Southern Africa

Contents

Comments from Guest Editor	3
Local Economic Development, Tourism and Land Use Choices	5
Brushing Against the Grains of History: Making Local Economic Development Work in South Africa	18
Future Papers	38

Comments from Guest Editor

Dr Japhet Ngubane

The Development Bank of Southern Africa (DBSA) has embarked on the development and publication of a Working Paper Series that it is intended would strengthen South Africa's position as the leader in policy dialogue about Africa's future, specifically new ideas on the relations between states and markets, human capital formation, natural resource management, energy and environmental policies, and new approaches to enhance economic integration schemes. This initiative is based on the DBSA's mandate which includes the promotion of economic development and growth, human resources development and institutional capacity building in the region; and to support sustainable development projects especially infrastructure-related thereby leveraging private sector investment.

The two papers that have been reviewed focus on the issues of development, particularly the plight of the poor to benefit from different strategies and models of development.

The common theme in both papers is that of integration, integration of local economic development (LED) initiatives, be it through the decisions made around tourism development or through its implementation at local levels.

The first paper, *'Local economic development, tourism and land use choices'* by Rivett-Carnac, within the context of tourism, highlights land use choices for tourism with reference to the different property development models that exist in the sector. It argues that these land use choices inform investment decisions, whether to invest in hotels or lifestyle developments, usually consisting of housing estates or holiday homes with associated golf courses, as a model to uplift the plight of the poor. The paper argues that these property development models have varied outcomes for society, local economic development (LED) and the environment. In this regard, it is argued that productive tourism enterprises (such as hotels) are preferable to lifestyle developments from a developmental perspective.

The second paper, *'Brushing against grains of history: A think piece'* by Sinazo Sibisi, outlines the form and shape of government's Local Economic Development (LED) programmes in South Africa. The paper argues that although great strides have been made towards achieving many of the socio-economic goals outlined in the Reconstruction and Development Programme, people of South Africa are still facing abject poverty. The paper further argues that

there are a number of gaps that are glaring in the implementation of LED starting from the basic understanding of LED by different role players to the lack of coordination of various LED strategies on the ground.

The paper concludes by outlining recommendations, such as specific interventions that need to be developed to target gaps (information and the

strategic positioning of LED programmes) for the success of LED programmes in South Africa and the role of the DBSA in positioning itself to fulfil its mandate within the LED context.

The two papers contribute to the creation of knowledge and form part of DBSA's endeavours towards strengthening Southern Africa's position as the leader in policy dialogue about Africa's future.

Local Economic Development, Tourism and Land Use Choices

Kate Rivett-Carnac¹

Abstract

Tourism is seen as one of the top sectors to address the challenges of unemployment and poverty in South and Southern Africa. In planning for tourism, appropriate land use choices need to be made. Land use and spatial planning is a local government responsibility in South Africa. This article highlights the importance of land use choices for tourism with reference to the different property development models that exist in the sector. These property development models have varied outcomes for society, local economic development (LED) and the environment. In this regard, it is argued that productive tourism enterprises (such as hotels) are preferable to holiday homes (particularly 'lifestyle estates') from a developmental perspective - and that these two property models should not be conflated. LED and Land Use Management (LUM) strategies need to be cognisant of the effect of land use choices on the tourism industry.

1. Introduction

Poverty is arguably the biggest development challenge facing South Africa. In the drive to achieve the government's Vision 2014 targets - of achieving a 6 per cent growth rate, and halving the unemployment and poverty - tourism has been identified

as key economic contributor (The Presidency, 2007a). It's much touted as 'the goose that lays the golden egg' because of its labour intensity, ability to attract foreign exchange earnings, creation of opportunities for small business participation, amongst other reasons. But there are challenges that come with the relentless promotion of tourism as a development choice. In particular, this paper seeks to highlight and explore one emerging issue in the relationship between tourism and land in South Africa in the context of land use choices (which are the purview of local government): that of holiday homes, particularly lifestyle/ housing estates, as a form of tourism property development. These estates often trade on the perceptions that they bring the benefits that tourism offers local economic development.

2. The Performance of Tourism in South Africa

Tourism's many proponents, including the United Nations World Tourism Organisation (UNWTO), see tourism as potentially a model contributor to sustainable development. Whereas tourism per definition 'comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and

1. Kate Rivett-Carnac is the Tourism Specialist in the Advisory Unit of the DBSA.

other purposes' (United Nation's World Tourism Organisation), eco-tourism is a particular form of tourism based in natural areas that includes benefits for communities and the conservation of ecosystems. Responsible tourism is a broader concept that describes tourism operations that take a triple-bottom line view (which includes not only considerations of the economy, but also society and the environment), but can also occur outside natural areas. Both eco-tourism and responsible tourism can be viewed as forms of sustainable tourism. They are often put forward as the most suitable forms of tourism for sustainable resource use and beneficiation.

Tourism is a major economic sector the world over, and in South Africa. Although estimates of its contribution to Gross Domestic Product (GDP) and employment are based on many assumptions, some of them unverified, it is certain that tourism can and does make a serious contribution to economic development (Department of Environmental Affairs and Tourism, 2009). Furthermore, with particular reference to sustainable development, tourism can protect biodiversity and conserve natural resources. It can also protect and promote local cultures in a responsible and sensitive manner.

In South Africa, tourism is credited with directly accounting for about 8.1 percent of GDP (direct and indirect contribution), approximately 400 000 direct jobs and about R60 billion in foreign exchange earnings in 2007 (South African Tourism,

2007). This has earned it the title 'the new gold' (Fontyn, 2008). The 2010 FIFA World Cup™ is expected to increase global awareness of the country and region, hopefully changing certain strongly-held negative perceptions (around crime in particular) which will lead to more foreign tourist arrivals in years to come.

In terms of legal and regulatory 'governance', South Africa's relatively robust policies around land restitution, labour rights, Broad-based Black Economic Empowerment (B-B BEE), amongst others, afford it a strong framework for equitable development of tourism, at least on paper. On the environmental front, the country's National Environmental Management Act and recently adopted National Framework for Sustainable Development are also progressive pieces of work. These policies clearly articulate environmental limits to development choices.

Progress on the issues of inclusion and natural resource conservation in tourism is experienced as real and meaningful (although by no means adequately so) by South Africans: increasing numbers of black South Africans are participating in the sector, as tourists, owners, operators, employees and service providers; on the environmental front, the land area under management by national parks has increased, and many conservancies have been created (The Presidency, 2007b). A bold initiative exists in Transfrontier Conservation Areas, also referred to as Peace Parks - megaparks

across national borders, linking together the subcontinent in nature conservation, tourism and development passages.

With the energy crisis and renewed attention placed on water, more sparing use of resources is also underway with general consumer and industry awareness of these resources at unprecedented levels. Climate change and the relatively new focus on carbon emissions from travel has led to the mooted imposition of carbon taxes on flights, and perhaps some behavioural change amongst clients ('the tourists') will result. It is not yet known what the extent of behavioural change will be, nor its impact on demand for long-haul destinations, such as South Africa.

3. Development and 'Local Economic Development'

The discourse on development is complex terrain. For Ted Trainer (2002), the main problem with 'development' arises when it is simply equated to growth - which assumes trickle-down benefits to the poor (to achieve 'development' through growth). Closer to home, in a recent book edited by Ben Turok (2008), it is argued that the trickle-down effect assumed by orthodox market economists does not work. Benefits received by poor and marginalised people are often few and inadequate unless the structural dynamics of exclusion are addressed.

In South Africa, within the National Framework for Sustainable Development,

development is seen as 'a process that results in the qualitative improvement in human well-being, which, in turn, is achieved via access to infrastructure and services, education and enhanced skills, empowerment via secure livelihoods and cultural development, decent health care and welfare support' (Department of Environmental Affairs and Tourism, 2006: 64).

In contrast, material economic growth is defined as 'the quantitative material expansion of physical infrastructure, capital assets of various kinds, economic resources, intellectual and institutional capital' (ibid). It is argued that material growth is a necessary condition for development up to a certain point, beyond which development can occur at a rate that is faster than material economic growth.

Non-material growth and development is achieved by reducing the 'total material requirements of the economy' - more commonly known as 'dematerialisation' (ibid). This recognises that we live on a biophysical planet, where certain environmental limits exist, and where certain natural capital cannot be substituted by financial capital or technology innovation and replacements.

In order to achieve development, a number of theorists have proposed alternative ways of living (see Max-Neef, 1991; Korten, 1995; Shuman, 1997; Henderson, 1999; Norberg-Hodge,

2002; Trainer, 2002). What they have in common is a focus on people meeting their own needs through contributing and controlling their own productive efforts - which allows for a measure of self-reliance. This involves practicing community-based decision making and participation; applying local resources and technologies in an ecologically sound manner; building local economies; rejecting one-dimensional and simplistic views and solutions to the challenges of poverty and development; and striving for satisfactory and sufficient but materially simple living standards as distinct from the Western consumer lifestyle.

Within the 'development debate' outlined above, the Bertlesmann Foundation and World Bank see local economic development as 'the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation in pursuit of a better life for all' (Ackron, 2005).

Nel (2001), in reviewing the status of LED in South Africa, quotes Escobar as saying that 'LED is one response to the so-called development impasse ... and has parallels with the anti-development argument about the need to focus on innovative grassroots movements'. For Rogerson (2003: 1004), however, LED in South Africa has not been based on this 'innovative grassroots movement' approach, but has had a distinct neo-liberal flavour. He believes that the traditional practice of LED has been

historically characterised by four key components: competitiveness of localities, the enhancement of growth (here he talks about property-led development), supporting job creation (through business retention and SMME development), as well as community development (such as community enterprises and cooperatives) This paper highlights a case in point where property development as a form of infrastructure expansion can have negative impacts on development.

4. Tourism and LED

It is well recognised that tourism can be a strong driver of LED: responsible tourism developments are able to create many jobs and other spin offs in the local community, including supplier development and demand for other tourism products in the destination (see Rogerson, 2006). Tourism can also help 'brand' an area - and improve its attractiveness to tourists, investors and the like. When tourists visit a destination, they spend money not only on accommodation, restaurants, and activities, but in shops and petrol stations and on other service industries (such as banks, transport services, etc). With an increased local rates' base brought by tourism enterprise growth and its effects, demands are increasingly placed on local government to respond to service delivery. This can have the effect of speeding up service delivery for the poor. So tourism's potential to uplift spaces is significant (Dulstroom, Franschoek and Clarens are cases in point).

Conversely, linked to this 'gentrification', a common effect of a successful tourism destination strategy is the appreciation of property values, which can put land and buildings increasingly out of the reach of the landless poor in the area. So although more jobs might have been created, and a more robust local economy stimulated, and perhaps even service delivery enhanced, tourism can still have negative (albeit it indirect) impacts on the poor, who often may remain marginalised from procuring assets such as land. This is not unique to tourism. As land becomes more attractive to developers, it is they who end up deciding the most appropriate form of land use. Local government's role here should be setting up and implementing an appropriate land use framework. This then facilitates the actual approval of zonation, as well as attachment of conditions to development plans in line with the framework, to guide decisions. This recommendation will be returned to later.

4.1 Land Use Planning and LED

According to Rampete (2008), a recent review of integrated planning in South Africa indicates that land use management strategies (LUMS) are a challenge for local government. Not only this, many municipalities do not have functional LUMS in place at all. Where they exist, they are seldom influenced by the local Spatial Development Framework - one of the key competencies of local government. This inadequate land use planning environment has consequences

for socio-economic and environmental decisions. Holiday homes, particularly large lifestyle estates are a case in point.

4.2 Lifestyle estates - a kind of tourism?

The lifestyle estate approach to settlements - where in areas of increasing tourism attractiveness property developers' plan and build housing estates for residents, often including golf courses or game- can threaten the social, economic and environmental sustainability of local spaces. This form of land use is criticised by community advocates and environmentalists alike for its social exclusion, environmental and economic inefficiencies and the separation between rich and poor that it entrenches.

A recent article in the Financial Mail (Martin, 2008) points to the growth of these estates:

Four golf estates are already established and running in the Waterberg, and there are three other projects on the go - two of them taking the concept of golf and game to entirely new level in terms of a bushveld experience for its residents and visitors. Homes will be on huge stands, some so isolated that you'll need your 4 X 4 to visit a neighbour.

These are significant land use choices, driven by private developers and comprising swathes of land: '...the

Meletse estate...is set in 16 000ha of bushveld... Dainfern² would fit 50 times into Meletse' (Martin, 2008).

It is acknowledged that lifestyle estate development can bring some economic development to rural or semi-rural areas. Certain estates also include some conservation of ecosystems where game is part of the offering. Many development practitioners would argue, however, that the unadulterated pursuit of this form of property-led development undermines the potential for sustainable human settlements, integrated land use, and meaningful, full time job creation for locals.

And holiday homes in general and lifestyle estates in particular are often conflated with tourism. This conflation exists for a number of reasons. In certain instances of new estate developments, tourism offerings are included in the estate plan. These tourism components are usually hotels, wellness centres, conferencing and recreational facilities. Indeed, part of the appeal of the estate may well be the tourism attributes and recreational facilities it offers, as well as the tourism destination appeal of the surrounding area.

This mixed-use property development is a growing trend, the reason being that it makes financial sense for the developers/and owners. House sales realise returns and cash flow for developers in the short term, while the hospitality components take longer to make money. Also, there exists a

mutually beneficial relationship between the housing and tourism components: the housing is more attractive to the individual property investors because of the tourism offerings on the estate, and the tourism offerings benefit from the demand from the housing investors. According to Bernard Forster (2008) of IFA Resorts, which co-owns Zimbali, twenty percent of the demand at the Zimbali hotel is from the house owners and their guests. So the hotel also benefits from the large house estate on its doorstep which creates a market for its services - rooms, food and beverages services, etc. Thus for developers, the lifestyle estate and tourism components fit well together.

Lifestyle estates may also be conflated with tourism because of the reputational benefits this can have for a developer seeking planning permissions. As indicated earlier, tourism is politically well-supported in South Africa. When developers reference tourism impacts, government officials and other role players might treat development plans with more enthusiasm than would otherwise have been the case. Indeed, if one wants to be pedantic in terms of definitions, the owners who visit their holiday properties are certainly tourists, but the houses cannot and should not be understood to be tourism businesses as they do not actively trade as tourist accommodation. They are thus unable to create the work opportunities and other linkages that trading businesses can. It goes without saying that the development choices we make impact

2. Dainfern is an up-market suburb in the north of Johannesburg.

on our ability to address poverty and unemployment, as well as sustainable resource use. Land use planning in this context is paramount. In a recent letter to the editor in *The Star*, Tshepo Diale (2008) traces the issue of land inequality to patterns of spatial development that characterised colonialism and apartheid. This is well accepted. He bemoans the little progress made in land reform despite the Freedom Charters' demand that 'the land should be shared amongst those who work on it'. In addition, Diale (2008) highlights that:

Land speculation has been rife and rural communities have had to watch as our land is sold off to foreigners, and as large tracts of land that could be used for food security and livelihoods is converted into game reserves, hunting lodges and other tourist attractions.

Diale's makes an important point when he outlines the link between land use planning, food security and livelihoods. He also captures certain development advocates' growing concerns with tourism as a developmental choice. Given the conflation between tourism and lifestyle estates, this is understandable. But different approaches to tourism, and different types of tourism businesses have varying socio-economic and environmental effects. Despite the concerns and criticisms, tourism developments can indeed benefit local people and in so doing improve livelihoods.

This requires that the tourism approach adopted has a deliberate developmental agenda. Responsible Tourism and eco-tourism have both been cited as approaches that are active in demanding developmental outcomes. Fair Trade in Tourism South Africa has certified over forty 'responsible tourism' businesses in South Africa (Jennifer Seif, 2009).

Where property developments are strong on housing sales and weak or absent on dedicated tourism offerings, however, few direct benefits accrue to anyone other than the developers, the real estate owners, and, possibly the municipality (with an enhanced rates' base). Certainly increased numbers of people visiting and living in the area has a multiplier on general economic activity, but whether and how much this increased activity and rates' base then 'trickles down' to the poor in terms of service delivery or employment opportunities is debatable. Where property developer and local demands coincide, it's those who can most easily give material effect to their demand that win.

Another example closer to home better demonstrates a particular instance of land use pressure brought about through property development linked to tourism attractiveness. The UNESCO World Heritage Site of the Cradle of Humankind has seen an increasing number of lifestyle estates develop in its vicinity, just north of Johannesburg. These are particularly driven by the successful development of the area

into an attractive tourism destination, but are also related to the demand for land close to Gauteng for upmarket residential estates. The pressure from estate developments is undermining environmental integrity of the World Heritage Site and its surrounds, and the ability of dedicated tourism businesses, which could create jobs, to access land for development. This threatens the tourist attractions' status and potential benefits that tourism businesses could bring to the area. To address this, the Cradle of Humankind is working with local government to look at a land use planning strategy which guides more appropriate and mixed use forms of development (Pillay, 2008).

Research on the Midlands Meander indicates a similar threat from increasing property values in that area (Coetzee et al., 2008). This trend threatens the core values that saw the Meander first established in the 1980's, which include culture, nature, authenticity, and social inclusion. Today the impingement of lifestyle estates, which change the very experience offered to tourists, and take away the 'natural offering' as well as the opportunity for tourism and craft businesses to purchase land to establish in the area, can have serious consequences.

For the author, one of the single biggest concerns is that lifestyle estates are relatively passive from a job creation point of view, whilst often having a major environmental footprint (particularly in

areas where inadequate water supplies exist). Certainly jobs are created during construction (although there is no guarantee that locals will receive these opportunities). Once the units are sold, lifestyle estates (with or without the game reserves and golf estates) create few permanent jobs other than domestic workers and garden staff.. Where this housing is part of a larger development which includes dedicated trading tourism businesses, such as hotels, conference centres, etc. those hospitality components would create more full-time employment. Depending on the scale of the hospitality component, this could be significant for the area. In certain instances, where owners of the sections or fractions visit their holiday homes/ or fractions often, alternatively putting their room nights into a pool for usage by others where this is an option provided by the developers, the development impact can be higher. (Fractional title is the flavour of the month, with the option to make a return through pooling un-utilised room-nights as part of the proposition made to the individual investors). The more footfall received in the estate, the greater the likelihood of benefits accruing to the various businesses in the area, creating positive multipliers. But in reality many holiday homes stand empty most of the year.

In some instances land that is perfectly located for dedicated and trading hospitality businesses - on the coast for example, has been developed into housing estates. So, residential property

development and tourism are not always easy companions. In these instances, the opportunity cost for tourism businesses, and for jobs, may be immense. As less and less access to prime coastal land exists, land use choices for this prime land should favour productive businesses over housing estates. This is where land-use planning, and the governance of land given its relationship to LED, needs to work in favour of employment-creating businesses.

In this context it is alarming when the following statement is made in the same *Financial Mail* article (Martin, 2008):

The Limpopo provincial government sees tremendous potential for international tourism in the Waterberg... It has encouraged development of these golf estates in contrast to the Garden Route, where the Western Cape government has stymied the fast-tracking of golf estates through the approval process. But then the Garden Route doesn't need that many more developments to remain attractive to tourists, whereas Limpopo certainly does.

This further legitimises lifestyle housing estates as a 'developmental choice' for government. It would be disingenuous not to recognise the tourism value of golf estate developments to the tourism: many tourists - both foreign and South African - enjoy golf and some choose holiday destinations that provide these facilities. But the value of these developments

should not be overstated; nor can it be necessary to offer seven golf estates in the Waterberg to attract tourists! As a tourism practitioner, the author would argue that developmental tourism is about attracting investments that can create many jobs, and which actively market the area, in turn attracting new visitors and establishing a 'destination effect'. Responsible tourism businesses will also deliberately pursue strategies to benefit local populations, by prioritising host communities for jobs, implementing a B-B BEE and/ or indigenisation agenda, building local enterprises and supply chains, respecting the cultural practices and the like. This also means considering issues relating to land access, ownership and usage.

If we ignore the distinction between housing estates, including holiday homes, and tourism businesses, and fail to understand the positives and drawbacks of those instances where they co-exist, we will miss out on much of the local economic development potential of tourism.

It is accordingly of concern that South African developers are exporting this housing-estate 'tourism' model to our neighbouring countries, notably Mozambique. One can't open a magazine without seeing an advertisement to buy up a piece of a resort development on the coast of that country. A few factors may keep the developers at bay in Mozambique. One is that the International Finance Corporation and

the Mozambique Ministry of Tourism are busy developing an integrated tourism resort scheme to guide the kinds of tourism developments that should take place in the country. This will ensure product mix (to get away from ribbon housing resorts on the coast).

Another factor which may stymie interest is that investors get long leases on the land, not outright title. This means the development choices won't exist in perpetuity, although fifty years might still be too long for many of the communities whom are likely to experience as least as many negative impacts from seeing their traditional lands privatised, and access to the sea and land for livelihoods reduced, as the jobs that will be created.

A third and major factor is the economic climate. With the global economy reeling from the sub-primate crisis and its knock-on effects, it is likely that many of the planned lifestyle estates will struggle to attract investors, at least in the short- to medium-term.

5. Conclusions

Local economic development choices need to balance various voices and demands. Reference to academic authors on the topic indicated that local economic development is a process, and that the process requires participation and a consideration of what development choices can deliver the best outcomes for the area. This is often understood in terms of job creation, given the high

unemployment facing South Africa. Literature also warns of assuming trickle-down benefits will accrue to the poor from economic growth (without a consideration of its modalities). At the same time, it is recognised that many rural spaces do not have the freedom of great and diverse investor demand. Property developers, who promise to attract affluent South Africans and foreigners alike, have a part to play in the development of housing and recreational facilities, and a local rates' base for municipalities. But land use choices must be carefully considered, as well as the possible impacts thereof, both positive and negative. The political prioritisation of tourism should not lead to ill-conceived development choices that result in the further marginalisation of the poor, which is likely if we continue to conflate lifestyle housing estates with tourism and give access to prime land to property developers of the first category, rather than second.

So what does this all mean and where to from here?

- In improving its performance on integrated development planning, including LED, local government must develop integrated human settlement plans and LUMs. These should be sophisticated enough to accommodate and link together the various needs that exist amongst different social groups and investor categories. A deliberate strategy of integrated planning, sustainable human settlements, LUMs and service delivery is needed to address some of

these challenges. And this requires not only institutional capacity at the level of local government, but the ability and desire to deal with the complex issues that 'development' can bring.

- If well planned, there is certainly room for upmarket housing estates but without this becoming a kind of 'mono cropping' land use form. Rather, these estates should form part of an overarching land use strategy in an area. Where holiday/lifestyle housing estate developers appeal to 'tourism' as a legitimiser of their projects, government; communities; and the tourism industry at large need to be clear on the actual benefits and impacts that are likely to result. Tourism strategies within LED planning need to look at different types of tourism products to attract various visitor groups and, in so doing, diversify their tourism asset base. They should not rely on second home holiday makers alone. Other local visitors, domestic and foreign tourist markets all offer potential.
- We also need to recognise that economic development in an area can further exclude the most marginal groups given the effect on land prices. This needs to be acknowledged upfront and addressed through the aforementioned integrated human settlements' approach which should deliberately construct spatial planning for localities based on the needs of all the areas' inhabitants.

The ANC's recent resolution on rural development, land reform and agrarian change (ANC, 2008) at Polokwane resolves to:

Build stronger state capacity and devote greater resources to the challenges of rural development, land reform and agrarian change. In particular to Ensure that the state regulates the land market effectively with a view to promoting the goals of rural development and agrarian change, limiting the unsustainable use of land for elite purposes (such as the conversion of prime agricultural land to golf estates) and ensuring that land remains predominantly in the hands of South African residents.

Access to land will remain a burning issue in South Africa. We must ensure that our land use choices benefit the poor by placing the poor at the centre of the development agenda. Responsible tourism can contribute to this agenda. It should be prioritised and planned as part and parcel of a LED strategy which is underpinned by wise land use choices and informed by the objective of sustainable communities.

Selected References

- Ackron, J, 2005. Applied Economics for Planners 2005 (3). Presentation given at University of Stellenbosch; provided electronically. August 2005. Stellenbosch.
- African National Congress, 2007. Resolution on Rural Development, Land Reform and Agrarian Change. ANC 52nd National Conference. December 2007. Polokwane. <http://www.anc.org.za/ancdocs/history/conf/conference52/>
Accessed 1 October 2008.
- Coetzee, C. et al., 2008. Midlands Meander Economic and Marketing Research Project: Executive Summary (unpublished). University of KwaZulu-Natal. Pietermaritzburg.
- Department of Environmental Affairs and Tourism. 2006. A Framework for Sustainable Development in South Africa. (Draft for Public Comment). 15 September 2006. www.deat.gov.za
Accessed 21 January 2007.
- Department of Environmental Affairs and Tourism. 2009. Opening Address made by Minister van Schalkwyk at the Local Government and Tourism Conference. Cape Town. January 2009.
- Diale, T, 2008. We watch helplessly as our land is sold off to foreigners. Letters' page. *The Star*. 19 September, 2008.
- Fontyn, Y, 2008. New Gold. *Financial Mail* online. <http://free.financialmail.co.za/report08/satourism08/asat.htm> Accessed 14 November 2008.
- Forster, B, 2008. Comments made during panel discussion at the Hospitality Investment Conference Africa. 28 -30 September 2008. Johannesburg.
- Henderson, H, 1999. *Beyond Globalisation: Shaping a Sustainable Global Economy*. Connecticut: Kumarian Press. 21-60.
- Korten, D, 1995. *When Corporations Rule the World*. Connecticut and San Francisco: Kumarian Press and Berrett-Koehler. Chapters 4,8,12,13 and 16.
- Martin, J, 2008. Where the rough is wild. FM Life, *Financial Mail*. October 3 2008, 79-81.
- Nel, E, 2001. Local Economic Development: A Review and Assessment of its Current Status in South Africa. *Urban Studies*. Vol. 38 (7). 1003-1024.
- Patterson, C, 2008. Country report: Local Economic Development in South Africa. GTZ. http://www2.gtz.de/wbf/doc/Country_Report_LED_in_South_Africa.pdf
Accessed 14 November 2008.
- Pillay, M, 2008. Cradle of Humankind World Heritage Site: Presentation at Makapan Valley World Heritage Site Strategic Planning Workshop. 27 August 2008. Makopane.
- Rampete, N, 2008. DBSA Perspective on 2008/2009 IDPs (draft). Internal document. Development Bank of Southern Africa. Midrand.
- Rogerson, C, 2003. Towards Pro-poor local economic development: the case for sectoral targeting in South Africa. *Urban Forum*. January - March 2003.14 (1).
- Rogerson, C. 2006, Pro-Poor local economic development in South Africa: The role of pro-poor tourism. January 2006. *Local Environment*, 11 (1). 37 - 60.
- Seif, J. 2009. Comments made at the Local Government and Tourism Conference. Cape Town

- Shuman, M, 1997. *Going Local*. New York: The Free Press. Chapter 1 and 2. 31-82.
- South African Tourism, 2007. Annual Tourism Report 2007. Johannesburg. <http://www.southafrica.net> Accessed 1 November 2008.
- The Presidency, 2007a. Accelerated and Shared Growth Initiative of South Africa 2006 Annual Report. Pretoria.
<http://www.thepresidency.gov.za/docs/AsgiSA2006.pdf> Accessed 30 April 2007.
- The Presidency, 2007b. Development Indicators Midterm Review. Pretoria. http://www.info.gov.za/otherdocs/2007/development_indicators.pdf.
Accessed 27 June 2007.
- Trainer, T, 2002. Development, charity and poverty. The appropriate development perspective. *International Journal of Social Economics*. 29, (1/2) 54-71.
- Turok, B (ed), 2008. Wealth Doesn't Trickle Down: the case for a Developmental State in South Africa. *New Agenda: South African Journal of Social and Economic Policy*. Cape Town.

Brushing Against the Grains of History: Making Local Economic Development Work in South Africa

Sinazo Sibisi¹

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 are key contributors to this phenomenon. Such marginalization not only ensures that the asset base of the poor is weak - which is why growth does not 'trickle-down' (World Bank 2005) - but also that this base continues to be eroded through high transportation costs etc. Thus, government 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 continues to be mired in structural solutions regarding 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.

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

1. Sinazo Sibisi is the Divisional Executive: Planning

Since 1994, from the RDP, through the Growth Employment and Redistribution 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 conceptualized 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.

2. LED Practice in South Africa to date

The purpose of local economic development (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
- Investments 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 recognized 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, Van Donk et al 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 poured 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 be able 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 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 urbanization (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 co-efficients 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 characterized 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 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 organization and with very little input, (let alone ownership!), by the private sector.

As LED increasingly became associated with micro-level projects, it increasingly lost currency as an effective sustainable development tool. The result was that some municipalities - notably the Metros - rejected LED in favour 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 Network¹.

Even where comprehensive, integrated strategies have been employed, driving paradigms have often limited their impact, resulting in an inadequate balance between pro-growth and pro-poor interventions. Moreover, in cases where some balance exists, the strategies that have been 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 marginalization.

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 capital into fungible or productive assets (see De Soto 2000) which would require reconfiguring local housing and land markets (Urban Landmark 2007, Misselhorn 2008) as well as taking steps to reduce the costs of formalization. The former would also require significant regulatory reform as many have argued (Berrisford & 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 potential 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 marginalization, (e.g. should informal settlements be recognized and formalized? Should attempts be made to stem the tide of rural migration or is urbanization 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 investments 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

1. An outline of this methodological framework and specific examples of various city development strategies can be found at www.sacities.co.za.

'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 red-lining 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. Subsidized 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 formalization; 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; and Fostering local social & economic networks as well as innovative platforms for trade & 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)², the Department of Provincial and Local Government's (DPLG) LED Framework³, the Department of Trade and Industry's (DTI) Draft Regional Industrial Development Strategy (RIDS)⁴ and the Department of Environmental Affairs and Tourism's (DEAT) National Sustainable Development Framework⁵, 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 maximizing economic potential to address historical inequities in the space economy.

- A *non-jurisdictional perspective*, recognizing that economic potential often cross-cuts municipal and provincial boundaries, thus requiring a broader set of institutional frameworks and interlocutors.
 - 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

2. Policy Co-ordination and Advisory Services (2006), The National Spatial Development Perspective.

3. Department of Provincial and Local Government (2006), National Framework for Local Economic Development in South Africa (2006 - 2011).

4. Department of Trade and Industry (2006), Draft Regional Industrial Development Strategy.

5. Department of Environmental Affairs and Tourism (2007), National Sustainable Development Framework.

without contradictions. For example, the definition of economic potential and where it does or does not lie is still a matter of debate⁶, 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 contention⁷. 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 these frameworks, such programmes tend to be poorly conceptualized and executed due to the fact that:

They tend to be consultant driven and hence are not embedded into 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.

Moreover, the lack of methodological consistency across these programmes⁸ 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

6. 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.

7. 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 roll-out the NSDP. 4. Department of Trade and Industry (2006), Draft Regional Industrial Development Strategy.

8. 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 emphasized 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 recognize 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.

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 co-ordinating 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 ghettosisation 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 how 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 maximizing 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)

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

the 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), whilst others argue (Pieterse and Van Donk 2008) that the PFMA and the MFMA also militate against interdepartmental and multi-sphere integration and synchronization. Whilst the structures set-up 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 trade-offs. Pieterse and Van Donk (2008:65) state that:

...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, stabilize (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 personalization 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 (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, practice⁹ 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 underemphasize and under-theorize contestation-based politics. Hence, the trade-offs that need to be made to drive shared growth are not made explicit, with the result that those with

9. 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.

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 overemphasized.

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 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 below, 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.

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 'E' 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	Municipalities to organise themselves and apply for the NDPG over the 2006-2009 MTEF period. Inner city strategies to maximise usage of property development incentive from urban development zone program. Consideration should be given to expand 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 inter-governmental 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 need to be organized 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 need 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 EU 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 PGDSs and LED programs.

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.

3. Making LED Work

If LED initiatives within the South African context are to be successful, specific interventions need to be developed 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 industrialized countries such as China and Japan, planned urbanization 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 trade-offs that need to be struck to produce sustainable, specific outcomes. Without such a framework, there is 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 prioritization; 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 capability must be built, 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); and
- 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 the 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 prioritization and the crucial importance of crafting realistic, intelligent visions.

The 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 roll-out 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 based 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 create the capability to help SMEs move up the capability curve and become integrated into existing value chains. Independent intermediaries such as the Cape Craft and Design Institute¹⁰ 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.

10. See 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 co-operate 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 organized 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 mobilizing marginalized 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 played

together strands of developmental knowledge that are normally compartmentalized into separate types of development practice: the key role of micro-finance in development; grassroots community-organizing 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 organization practice; and subordinating professional knowledge and roles to the organized 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 criticized for being reformist because it 'let's the state off the hook'; the emphasis on continuous challenge and engagement will be criticized for being too political and confrontational thus putting potential concessions at risk; micro-finance combined with community organizing will be criticized by the micro-finance purists for being irresponsible; and traditional rights-based community organizers 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 organizational learning methodologies required to address it. This does not mean one should attempt to address all aspects of institutional failure within a 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 organizational weaknesses, one must always begin by putting first things first - locating LED at the strategic core of the organization 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 organizational 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 it's 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.

Selected References

- Berrisford S and Kihato M (2008), Local Government Planning Legal Frameworks and Regulatory Tools: Vital Signs?, in *Consolidating Developmental Local Government: Lessons from the South African Experience*. Cape Town: UCT Press.
- De Soto H (2000), *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Great Britain: Bantam Press.
- Harrison K (2004), *Exploring Social Capital in an Urban Context*, Dark Roast Occasional Paper Series No.16. Cape Town: Isandla Institute
- Hosoya Y (2008), Japanese Experience of Fostering Regional Innovative Activities through the Industrial Cluster Program. Presentation to 11th Annual Global Conference of the Competitiveness Institute. Cape Town.
- Khan F (2004), The City and its Future: The Eternal Question, in *Development Update* Vol 5, No.1. Johannesburg: Interfund.
- Ketels C (2008), *Setting the Stage: Competitiveness, Innovation and Clusters*. Presentation to 11th Annual Global Conference of the Competitiveness Institute. Cape Town.
- Mammon N (2008), Urban Land Use Regulation in the Context of Developmental Local Government, in *Consolidating Developmental Local Government: Lessons from the South African Experience*. Cape Town: UCT Press
- Menguele F, Khan F and Vawda A (2008), The Emergence and Endurance of an Evolving Human Settlements Imaginary, in *Consolidating Developmental Local Government: Lessons from the South African Experience*. Cape Town: UCT Press.
- Misselhorn M (2008), *Draft Position Paper on Informal Settlements Upgrading*. Cape Town: Urban LandMark.
- Philip K (2008), *Second Economy Strategy: Addressing Inequality and Marginalisation*. Presentation to the Second Economy Conference, October 2008.
- Pieterse E (2008), *City Futures: Confronting the Crisis of Urban Development*. Cape Town: UCT Press.
- Pieterse E and Van Donk M (2008), Developmental Local Government: Squaring the Circle between Policy Intent and Impact, in *Consolidating Developmental Local Government: Lessons from the South African Experience*. Cape Town: UCT Press.
- Prahalad CK (2005), *Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. New Jersey: Wharton School Publishing.
- Policy Co-ordination and Advisory Services (2003), *Towards a Ten Year Review: Synthesis Report on Implementation of Government Programmes*. Discussion Document.
- Porter ME (1990), *The Competitive Advantage of Nations*. New York: The Free Press.

Senge P, Smith B, Krushwitz N, Laur J & Schley S (2008), *The Necessary Revolution: How Individuals and Organisations are Working Together to Create a Sustainable World*. New York: Double Day.

Senge P (1990), *The Fifth Discipline: The Art and Practice of the Learning Organisation*. London: Random House.

Urban LandMark (2007), *Do Informal Land Markets Work for Poor People?: An Assessment of Three Metropolitan Cities in South Africa*. A Synthesis Report.

World Bank-Netherlands Partnership Programme (2005), *Investigation of Pro-Poor Economic Development in South Africa*. East London: Rhodes University.

World Bank (2005), *Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries*. Washington: International Bank for Reconstruction and Development.

World Economic Forum (2007), *The Global Competitiveness Report 2007 - 2008*. Davos: WEF.

Future Papers

The DBSA Working Paper Series 1 and 2 focussed on Governance and Local Economic Development. Series 3 will be an open Series that seeks to encourage women to contribute on any topic (the Series will be published in August - to coincide with the National Women's month). Series 4 will focus on Local Government and Service Delivery. Themes for ongoing series will be announced in subsequent publications.

The Series aims to re-examine topical issues at various levels in society and how they affect development. The papers will investigate the nuances of the relationship between specific topics (e.g. governance or local economic development) and development in various areas and at different levels of society for purposes of identifying broad and specific trends and tendencies that may be emerging, new dynamics that appear critical, and future prospects. In this sense, this is a series of analytically sound, but policy-oriented papers designed to inform the agenda of the Development Bank of Southern Africa as a financier, advisor, and partner in regional development.

Commissioning Agreement

- All commissioned knowledge products or part of knowledge products and services produced on behalf of the Bank, and using the resources of the Intellectual Capital Unit will remain the Intellectual Property of the Development Bank of Southern Africa Limited.
- For more information on the Working Paper Series contact workingpaperseries@dbsa.org

