

CONTENTS

Introduction.....	3
--------------------------	----------

CHAPTER 1: Laying the Foundations.....	5
---	----------

- Understanding the meaning of LED
- Understanding what it means to prepare for and exercise LED
- Knowing what processes are involved in constructing an LED Strategy
- Knowing how to mobilise, research and assemble an LED Strategy
- Understanding the possible components and variations within an LED strategy

CHAPTER 2: Understanding the Policy Context for LED.....	19
---	-----------

- Knowledge of the constitutional and statutory mandates for LED
- Defining responsibilities of councillors for Local Economic Development – distinguishing the roles of councillors and officials in municipalities
- Issues that district councillors need to be aware of in working to support LED
- Understanding what district municipalities can do to stimulate the Local Economy by examining the extent and nature of what can be done to create jobs from the local level.

CHAPTER 3: The Building Blocks of LED Strategies	29
---	-----------

- Understanding the local economy – its sectors and resources
- Strategic choices which promote or hinder poverty and job creation
- Identifying competitive advantage in the country, region, district and local municipality
- Understanding concepts such as value addition, multipliers, leverage, backward and forward linkages, complementarities (of labour) and clustering.
- Fleshing out opportunities for job creation and increased community involvement in infrastructure and private sector development e.g. subcontracting and tendering
- Identifying the major blockages to investment and poverty reduction

CHAPTER 4: Planning for LED.....	49
---	-----------

- The components of LED strategies
- Strategic planning sessions – critical outcomes and decisions
- Mobilising for participation and partnerships
- Assigning territorial and sectoral roles across partners in LED processes
- Using LED plans to improving public confidence in municipalities

CHAPTER 5: Drawing up Action Plans..... 69

- Key Components of Action Plans
- Foundations for Implementation:
- Partnerships, Networking and Role Clarification
- Resources
- Management
- Some Components of Action Plans:
 - Intensification of Enterprise Support
 - Sustainable Developmental Community Investment
 - Integrated Development Programmes or IDPs

CHAPTER 6: Vigilance is the Price of Prosperity 113

- Understanding the need for consistent and regular monitoring and evaluation
- Building knowledge of sound M and E techniques
- Deciding how to measure i.e. the complexities of measuring development
- Assigning responsibility for data collection and analysis
- Managing change processes in LED

CHAPTER 7: Funding the LED Process 139

Range of financial mechanisms to different types of local economic development projects.

Glossary of LED Terms 146

LED Resources 150

Introduction

This draft toolkit is designed as a practical set of resources to support local government officials, councillors and LED practitioners.

LED is a relatively new field internationally and it is even more recent in the South African context. The ideas and suggestions in this toolkit therefore tackle issues from a basic and fundamental point of view.

In devising a framework and this toolkit, national government, in particular, the department of provincial and local government, are acknowledging the need for all actors at all levels of South African society to shape their environment and economic destiny. The nature of the challenges facing us suggests that creativity and innovation are needed at all levels and from all groups in the country. Thus LED calls for 'all hands on deck.'

The South African economy and spatial arrangements carry many hangovers from the past which still need substantive attention and programmes if we are to build an equitable society. LED practitioners and planners in particular, will need to apply their minds carefully if we are to build equity and unleash opportunities.

As this toolkit is the foundation for LED, it acknowledges that local players in an economy are best placed to determine appropriate strategies to build and grow their economies. There are however a

multitude of resources, both technical and financial which are available to local governments. Chapter 7 points to number of these. Linked to these resources is the notion that LED is integrally related to policies of national and provincial government.

The chapters and order of the text are designed to take practitioners and others through the logical steps in assembling and implementing LED structures and plans.

One of the areas that is not dealt with in this toolkit is the substantive differences among city, town and rural economies. These differences are alluded to though readers will need to unpack the specificities of these types of economies in practice.

We wish you great creativity and success in assembling and testing your LED interventions. Officials of dplg's LED unit look forward to your responses and comments.

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CHAPTER 1

LAYING THE FOUNDATIONS

- *Understanding the meaning of LED*
- *Understanding what it means to prepare for and exercise LED*
- *Knowing what processes are involved in constructing an LED Strategy*
- *Knowing how to mobilise, research and assemble an LED Strategy*
- *Understanding the possible components and variations within an LED strategy*

Roots of Local Economic Development (LED)

The concept of local economic development arose in the context of globalisation. As trade expanded across the world, many producers of goods and services faced competition from producers and countries that were able to provide goods and services at lower prices and sometimes better quality.

Globalisation is the process through which trade barriers have been reduced allowing goods and services to be traded more freely around the world

Globalisation brings both opportunities and threats. The opportunities lie in expanding trade beyond the boundaries of local and regional and national boundaries through competitive production techniques, value addition to local produce and innovation in local economies. The threats lie in our ability to adapt to global economic forces and in having to produce goods and services at costs which can compete on international markets. This means that the technology used and standards of production need to meet international requirements.

South Africa is a young democracy that has a conservative economy history which led to our economy being strongly rooted in commodities (e.g. minerals and agricultural produce). While we do have some competence in the motor industry and other forms of manufacturing, we still need to work on being more strongly competitive at an international scale. During the apartheid era, the majority of people were deprived of land, skills and opportunities to establish businesses. As a result, we still face deep rooted challenges in re-building the economic competence of the country.

Some of our disadvantages are that labour in South Africa is not highly skilled and machinery and equipment sometimes have to be imported. Skilled labour and equipment together build productivity which enable industries to compete. Furthermore, currency fluctuations and a weak Rand can imply that imports can increase in price which then increases productions costs.

In adopting LED as a strategy, the South African government is encouraging people at all levels of society to participate in economic decision making which explores creativity and builds entrepreneurship at all levels of society. Given the challenges that we face in job creation and poverty eradication, LED builds a platform for bringing ‘all hands on deck’ in working towards solutions. It is an acknowledgement that creativity, innovation and involvement of all groups are needed and can

Currency Fluctuations refers to the rise and fall in the value of the rand against other currencies.

contribute to solutions.

Another important reason for adopting LED as a policy is the push to democratise at all levels. LED can be described as a decentralisation mechanism which allows local and regional governments and their communities (business, labour and society) to shape their environments, improve competitiveness in their local economies and ensure that infrastructure and services work well for industry and society. By adopting LED strategies people in a local economy can work out ways of attracting investment to grow the local economy and also start businesses which will retain income in their area.

Decentralisation refers to functions of government being handed over other tiers of government, e.g. local or provincial government

In Chapter 2 we will explore the policy context for LED in South Africa in more depth.

What is local economic development (LED)?

As we implied above, LED recognises that people, business and governments at local levels are best able to restructure economic situations that will stimulate growth that is required to create jobs and thereby reduce poverty. In South Africa it is important that LED processes work towards social and economic equality. Under apartheid, the majority of South Africans were deprived of skills and access to opportunities. This has led to widespread poverty and underdevelopment among black South Africa. Thus building equity in society is an essential aspect of development processes.

LED is the result of joint planning by a municipality, its community and business sectors. This means that all economic forces in the local situation have to be brought

Private enterprise in a local economy includes all large medium, small and micro enterprises. This expanded view means that large mining companies and factories as well the smallest spaza shop or stall at a taxi rank is part of private enterprise in a local economy.

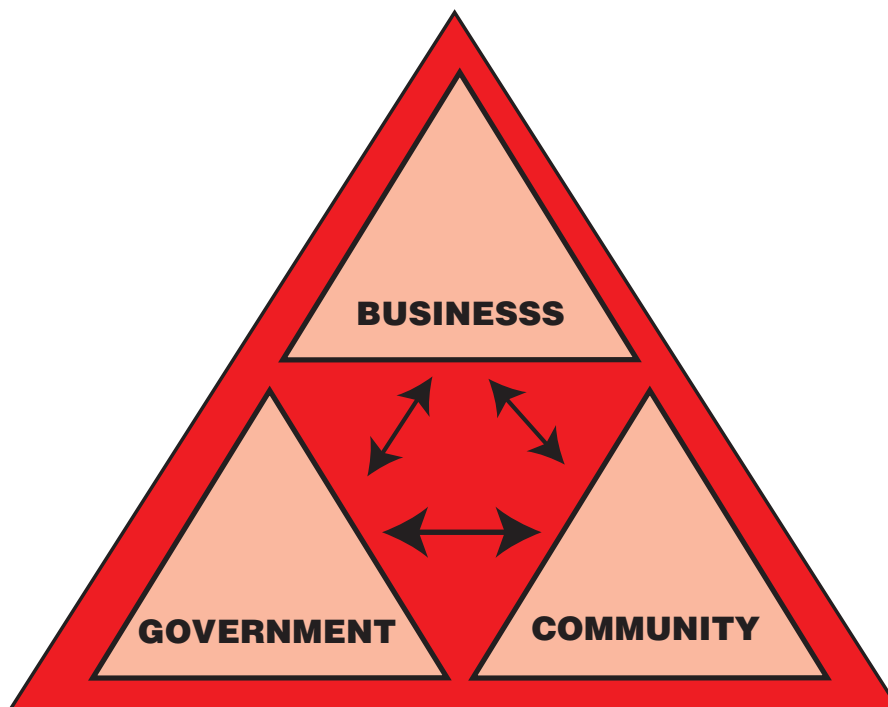
on board to identify resources, understand needs and work out plans to find the best ways of making the local economy fully functional, investor friendly and competitively productive.

As a starting point it is important to recognise the sources of income and wealth in society. Successful private enterprise and productive public-private partnerships create wealth in local communities.

A positive or enabling business environment means that infrastructural services must be reliable and that businesses must have convenient access to markets and essential inputs into the business. It is also important that the regulatory environment should be user-friendly. Suitable sites for business premises need to be available to encourage businesses to remain in or to make new investments in a local economy. Workers with the skills required for local sectors and industry within manageable distance are also an asset to the business environment. The safety of workers, raw materials and equipment in business are also important to encourage businesses to continue investing in an economy. It is important to recognise and cater for the support needs of business, i.e. financial services, business development consultants and other services that will enable businesses to become more efficient, productive and competitive.

Private enterprise however, requires a positive business enabling environment to deliver prosperity.

- Municipal government has a key role in creating a favourable environment for business development and success.
- By its nature, local economic development is a partnership between the business sector, community interests and municipal government.

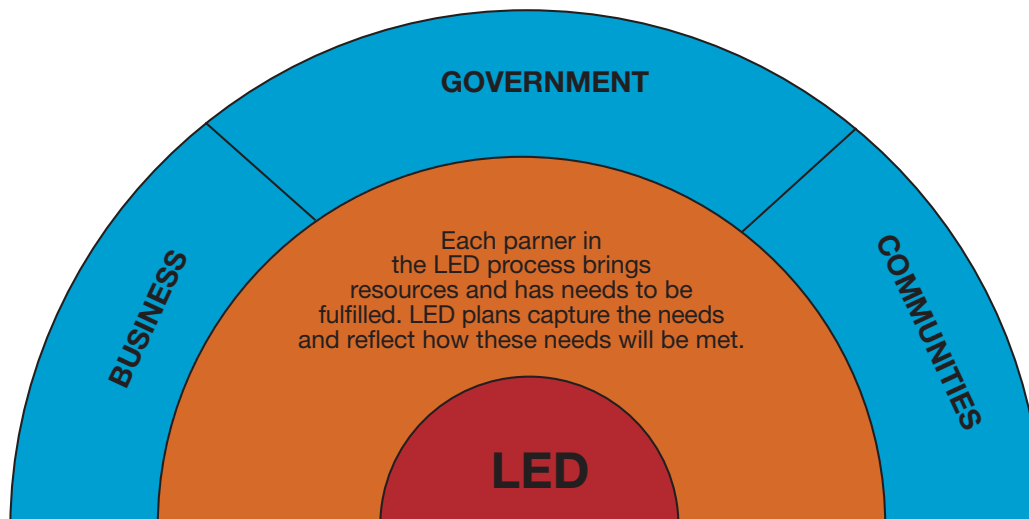


- LED is usually strategically planned by local government along with its public (other levels and agencies of government), private sector and community partners.

Investment is an important element of LED. It involves new investment by government and the private sector. Government investment would include construction of transport, power, water and telecommunications infrastructure. This creates a base for businesses and households to function well. Investment by businesses means that new factories/plants, mines, farms, service industries or trading premises are established, or new equipment is purchased. Both types of investment are essential foundations for growth. While businesses purchasing new equipment can lead to job creation, it can also lead to jobs being lost if new technology needs less labour. In the context of LED, it means that planners need to think of ways to attract new businesses to absorb the jobs that are lost. Businesses work to maximise profits and therefore planning for employment of people in a local economy is an important part of LED.

Investing in skills and continuous learning in businesses is also essential for building and maintaining comparative and competitive advantage.

- Implementation is carried out by the public, private and non-governmental sectors according to their abilities and strengths.



How to prepare for and effect LED

Each local situation has a different set of conditions that either improve or reduce the prospects for local economic development, and it is these conditions that

**Sharing a joint vision by all sectors is key
to a successful LED Strategy**

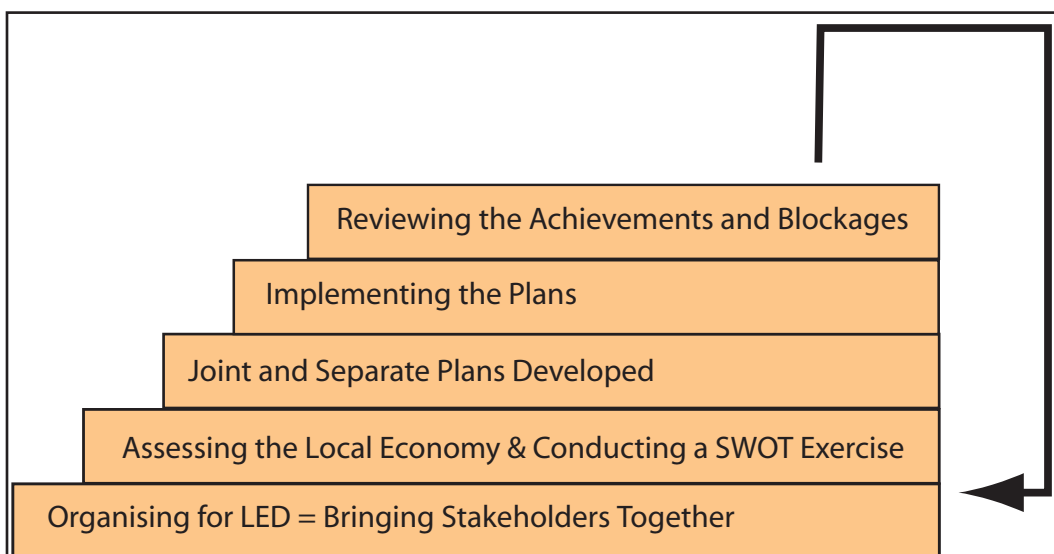
determine the relative advantage of an area in its ability to attract, generate and retain investment.

A community's economic, social and physical resources will guide the design of, and approach to, the implementation of a local economic development strategy. To build a strong local economy, good practice proves that each community should undertake joint information gathering processes to understand the nature and structure of the local economy. This should be followed by analyses of the area's strengths, weaknesses, opportunities and threats. This will serve to highlight the key issues and opportunities facing the local economy.

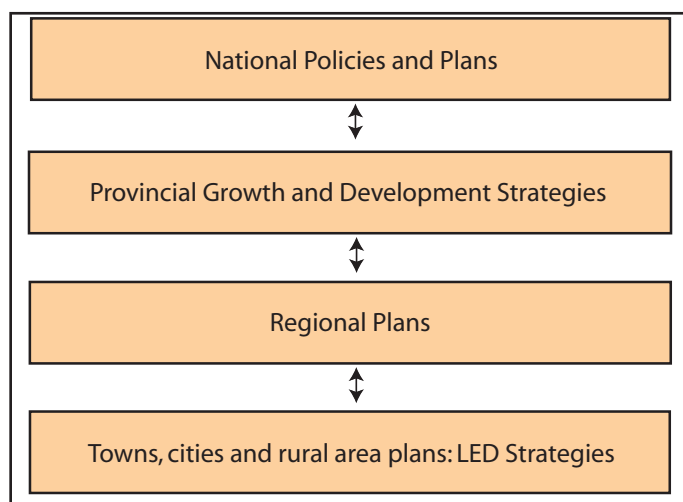
Economic Resources	Combinations of land, minerals, skills and money
Social Resources	Organisations, NGOs and educational institutions
Physical Resources	Buildings and infrastructure as well as places of natural and historical interest

Processes involved in constructing an LED Strategy

Ideally, the development of an LED strategy will be an integral part of a broader strategic planning process for a sub-national region, city, town or rural area. Effective strategic planning ensures that priority issues are addressed and limited resources are well targeted. The stepped planning process should be tailored to complement, and correspond with, other local planning processes. The process is not rigid and should be adapted to meet the needs of the individual community.



In South Africa this means that national, provincial and local plans and policies should be linked and complement each other.



In South Africa there are at least three types of local economies: cities, towns and rural areas. Each of these types has different economic structures, resources and types of economic activity. The economies of cities usually have a complex and varied mix of mining, processing, services, trade

and industries. Towns may have mining, processing, trade and feeder industries into farming or mining. Rural areas may be dominated by farming though there could mines close by as well. The factors which differentiates cities, towns and rural areas is agglomeration or density of population, and scale or extent of economic activity.

Mobilising for Research and Assembling an LED Strategy

A community begins the LED strategy planning process by identifying the people, public institutions, businesses, community organizations and other groups with interests in the local economy. This is often led by the local government, usually the mayor or city manager. The skills and resources that each of these stakeholders bring to the strategy process provide important foundations for success. It is important that the individuals and organizations have or are given some basic knowledge of the workings of the city, town or rural economy.

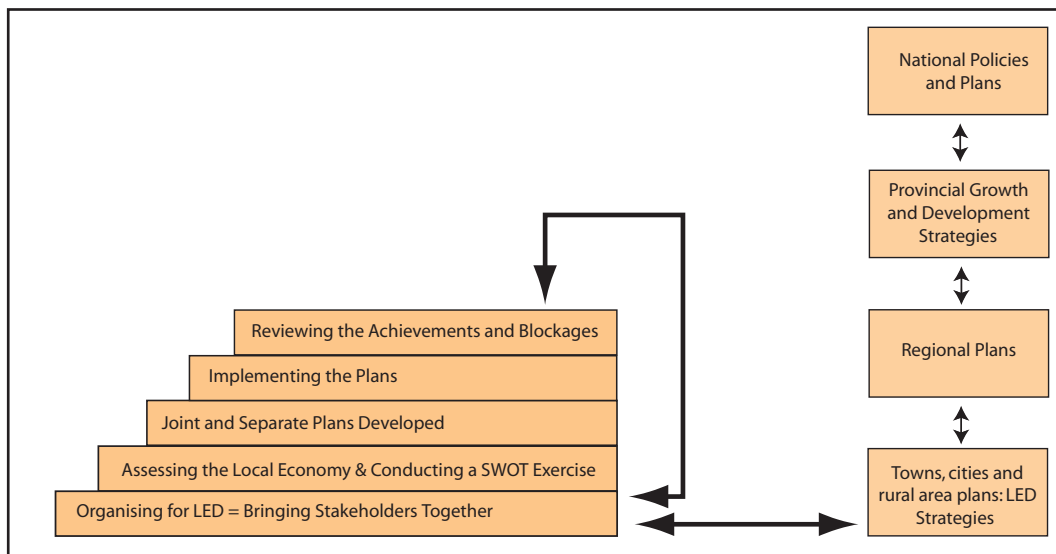
A resource review is a necessary input to the strategy, and should include the identification of financial, human and other capital resources that can contribute to the LED strategy. Working groups and steering committees can be established to ensure that both formal and informal structures are in place to support strategy development and implementation. Other issues that need to be tackled in the early stages include establishing LED staff teams and suitable political processes.

Local ownership involving all groups is essential for successful LED

Each community has a unique set of local attributes that can advance or hinder local economic development. These include its economic structure, its human resource capacity to carry out economic development, and how conducive the local government investment climate is to economic and business activity. The aim of the local economy assessment is to identify the community's strengths and weaknesses including its human resource capacity, local government's 'friendliness' to all types of business activities from corporate to informal, and the opportunities and threats facing the local economy.

The goal of the assessment is to create an economic profile of the community that highlights the basis of its comparative and competitive advantage in relation to neighbouring communities and other regional, national or international competitors.

As part of the LED strategy, a shared economic vision for the community and LED goals, objectives, programs, projects and action plans will be developed. This process ensures that all major stakeholder groups are given the opportunity to define what is to be achieved, how it is to be achieved, who will be responsible and the timeframes associated with the implementation of the LED strategy.

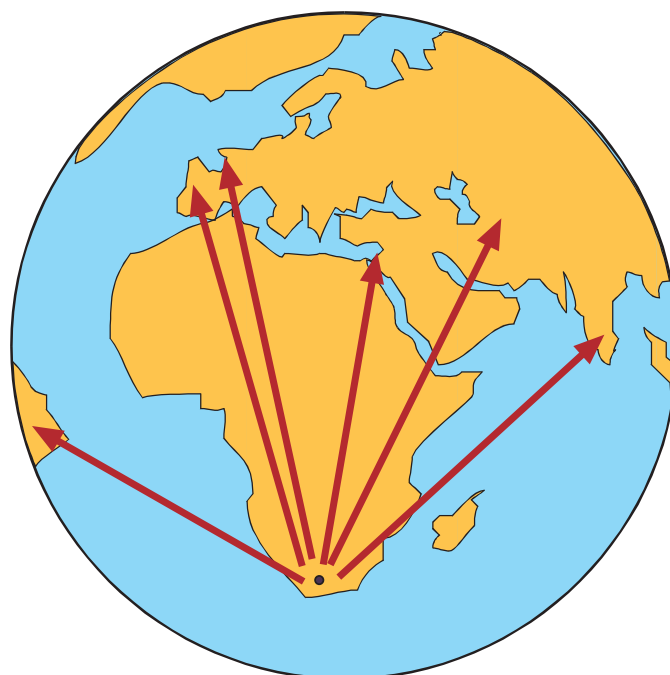


Most importantly, the LED strategy and action plans must be finely assessed against the staff resource capacity to carry them out, as well as the budgetary constraints. Ultimately, the strategy's action plans should be incorporated into the work and budgetary program of the local authority, and appropriate elements taken on by other stakeholders (business associations, utilities, educational institutions, etc.). The aim is to leverage strengths, overcome weaknesses, exploit opportunities and deal with threats.

Strategy implementation is driven by the LED action plans. Ongoing monitoring

is provided through the formal structures identified and created in step one, and evaluation of specific project outcomes ensures that the strategy continues to lead to the achievement of the LED vision, goals and objectives. In undertaking strategy implementation, it is important to identify and establish the appropriate institutions to carry out the plans.

Good monitoring and evaluation techniques help to quantify outcomes, justify expenditures, determine enhancements and adjustments, and develop good practices. This information also feeds into the review of the complete LED strategy.



The LED strategy should be reviewed at least annually to ensure that it remains relevant. It may be that conditions have changed or that the initial assessment was incorrect to the local conditions. The LED strategy should evolve continuously to respond to the ever changing competitive environment

Components And Variations Within An LED Strategy

By actively reviewing their economic base, communities gain an understanding of the opportunities for, and obstacles to, growth and investment. With this newfound understanding, communities attempted to expand their economic and employment base by devising and undertaking strategic programs and projects to remove obstacles and facilitate investment. Today, local economies face an even greater set of challenges at the international, national, regional and local levels.

International

Globalization increases both opportunities and competition for local investment. It offers opportunities for local businesses to develop new markets but also presents challenges from international competitors entering local markets. Multi-site, multi-national manufacturing, banking and service corporations compete globally to find cost efficient sites in which to locate.

Technologically advanced growth industries require highly specialized skills and a supporting technology infrastructure, but increasingly all industrial and service sectors needs highly specialized and specific skills and business environments. Local conditions determine the relative advantage of an area and its ability to attract and retain investment. Even small towns and their surrounding rural regions can develop local economic opportunities at a national or international level by building on their local economic strengths.

National

At the national level, macro-economic, fiscal and monetary reforms directly impact the economy at the local level. National regulatory and legal frameworks such as tax reform, telecommunications deregulation and environmental standards directly influence the local business climate, either enhancing or reducing the potential for local economic development. In many countries, national government functions continue to be decentralized thereby increasing the responsibility of municipal governments to retain and attract private industry.

Regional

Communities within and between regions often compete to attract external and local investment. Opportunities exist for communities across regions to collaborate with each other to help their economies grow, for example, by supporting infrastructure or environmental improvements that demonstrate a broad regional impact. An association of local municipalities or regional governments can serve to facilitate these types of LED effort by acting as an intermediary between national and municipal governments.

Metropolitan and Municipal

Businesses, both large and small, often choose to locate in urban areas because of agglomeration economies (i.e., the benefits derived from sharing markets, infrastructure, labour pools and information with other firms). The economic advantage of urban areas depends significantly on the quality of urban governance and management, and on the policies affecting the availability, or lack, of electricity, transport, telecommunications, sanitation and developable urban land. Factors affecting labour productivity in the local economy include the availability

and quality of housing, health and education services, skills, security, training opportunities and public transport.

LED infrastructure comprises two main components, 'hard' physical infrastructure incorporating roads, rail, water, sewerage and drainage systems, and energy and telecommunications networks; and 'soft' infrastructure of social, cultural and community facilities and capacity that enhance the quality of life and encourage industry and business development.

'Hard' and 'soft' infrastructure factors are major determinants of a community's relative advantage. The quality and provision of 'hard' and 'soft' infrastructure forms the cornerstone of a successful local economy. Metropolitan areas can offer increasing opportunities through economies of scale and effort as a result of the size of the physical and human capital available, as well as the size of its services and internal market.

Uncoordinated and disparate institutional frameworks and planning bodies in metropolitan areas can serve to undermine area-wide economic growth. Metropolitan-wide LED agencies, consortia and networks can be created to address these constraints. These innovative institutional frameworks, which represent the interests of different municipalities and partner agencies in the same metropolitan area, can bring benefits to the key actors of each municipality (public departments, business and civil society organizations). These frameworks can serve to unite the efforts of different localities and increase LED results, and can strengthen representation in higher levels of decision-making. This type of cooperation has worked well for cities that belong to common market agreements or that have common sector interests (i.e. Eurocities, Indonesian City Network, South African Cities Network).

The most important and effective local economic development activity that a municipality can undertake is to improve the regulatory processes and procedures to which businesses are subjected by the municipality itself. A survey of most municipalities would reveal a number of complex, poorly managed, expensive and unnecessary business registration systems. By reducing these, a municipality can quickly improve its local investment climate.

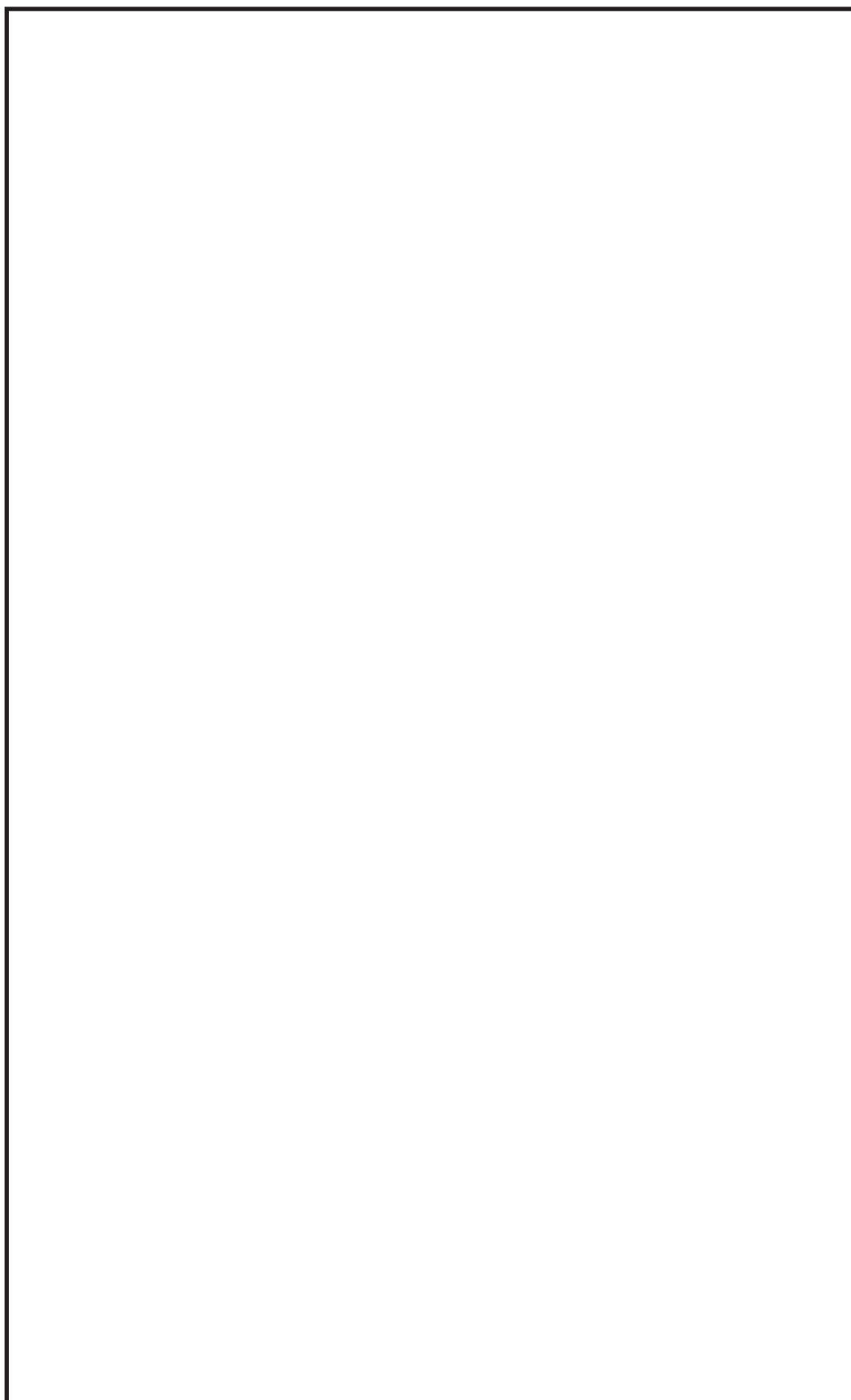
Disadvantaged Populations and Informal Economy

In many countries, economic growth is determined not only by the formal economy (the economic sectors that are legally registered and pay taxes) but also by the informal economy (those activities that are not legally registered). In some cases the size of the informal economy is greater than the formal economy, and it interacts with the formal economy by supplying certain goods and services. The linkages between the formal and informal sectors of the economy need to be understood and considered in devising a local economic development strategy.

Communities and businesses increasingly recognize that a successful local economy requires social, as well as economic, environmental and physical renewal. In many cities, large numbers of low-income families work within the informal economy. However, these informal activities are often low-growth activities as a result of a lack of access to proper infrastructure and services (i.e., electricity, water, and roads), regular means of financing, information and skills.

The development of an LED strategy should recognize and accommodate the constraints and opportunities of the informal economy so as to broaden the appeal of a strategically planned LED strategy. It should also encourage wider social benefits for all a community's economic and social sectors, both formal and informal, disadvantaged and excluded.

Do a drawing to show how you understand LED

A large, empty rectangular box with a black border, intended for a drawing or diagram illustrating the understanding of Local Economic Development (LED).

CHAPTER 2

UNDERSTANDING THE POLICY CONTEXT FOR LED

- *Knowledge of the constitutional and statutory mandates for LED*
- *Defining responsibilities of councillors for Local Economic Development – distinguishing the roles of councillors and officials in municipalities*
- *Issues that district councillors need to be aware of in working to support LED*
- *Understanding what district municipalities can do to stimulate the Local Economy by examining the extent and nature of what can be done to create jobs from the local level.*

The role of local government in development comes from Section 152 of the South African constitution.

The Constitutional Provisions

Section 152 (1) c states that one of the objects of local government is to promote social and economic development. Expanding on the developmental duties of municipalities, Section 153 goes on to state:

“A municipality must

- a. structure and manage its administration, budgeting and planning processes, to give priority to the basic needs of the community and to promote the social and economic development of the community; and*
- b. participate in national and provincial development programmes.”*⁽¹⁾

These objectives are further articulated in the Municipal Systems Act 32 of 2000. The stated priority function of this Act is *“To provide for the core principles, mechanisms and processes that are necessary to move progressively towards the social and economic upliftment of local communities...”* and more so *“to progressively build local government into an efficient, frontline development agency capable of integrating the activities of all spheres of government for the overall social and economic upliftment of communities”*...

The primary means to give effect to these developmental roles is by undertaking developmentally-oriented municipal planning which should ensure progress towards Section 152 and 153 of the constitution (Chapter 5, sub-section 23, Municipal Systems Act). Thus the Integrated Development Plan (IDP) of each municipality is intended to reflect a *“single inclusive and strategic plan for the development of the municipality which links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality”*.

Components of an Integrated Development Plan (IDP)

An IDP must contain

- a vision for the municipality’s long term development emphasising most critical development and internal transformation needs
- an assessment of existing levels of development including identification of communities lacking basic municipal services

Source:

⁽¹⁾ *Municipal Systems Act 32 of 2000*

- the council's development priorities and objectives including LED aims and internal transformation needs
- the council's development strategies, to be aligned with national or provincial sectoral plans and planning requirements (legislated and binding)
- a spatial development framework providing for land use management
- operational strategies
- disaster management plans

Status of an IDP

An IDP

- is the principal strategic plan with respect to planning, management and development
- binds the executive authority of the municipality
- binds all other persons with respect to their duties in the IDP and the rights of persons passed as a by-law.

Chapter 6 outlines the establishment of a performance management system. Though not stated as such the PMS in theory, should reflect achievements of the targets of the IDP.

As part of the process of planning an IDP, local governments are intended to develop a culture of community participation (through the establishment of ward committees). According to **Chapter 4 of the Municipal Systems Act**, a municipality must encourage and create conditions for the local community to participate in the preparation, implementation and review of its IDP, its PMS, the monitoring and review of its performance, budget preparation and strategic decisions relating to the provision of municipal services. In addition, municipalities should

“contribute to building the capacity of

- *the local community to enable it to participate in the affairs of the municipality; and*
- *councillors and staff to foster community participation; and*
- *use its resources, and annually allocate funds in its budgets, as may be appropriate for the purpose of implementing (a) and (b) above.”* ⁽²⁾

This toolkit can be treated as one component that would be fitting in terms of the provisions of the Act as quoted above. The Act goes on to stipulate the

Source:

⁽²⁾ *Municipal Systems Act 32 of 2000*

obligations with respect to mechanisms, processes and procedures to include community participation ensuring the inclusion of those who are illiterate, disabled or disadvantaged by gender or other causes. There are thus provisions for communication and notifications and admission to public meetings.

Another relevant development reference in the Act relates to local government building its capacity to perform its functions. This means that municipalities need to ensure that councillors and officials understand the policies relating to LED. The recently released, “Stimulating and Developing Local Economies” (dplg, 2006) presents the National Framework for LED in South Africa. The provisions of this framework document will be expanded below.

The reference to building its capacity also means that it is of prime importance that municipalities and metros employ officials that are trained in LED. They also need to employ technical professionals who can undertake key responsibilities in urban and regional planning and studies in working out the competitive advantages of local economies. In cases where such expertise does not exist, municipalities can contract in researchers and planner with the appropriate skills.

Sub-section 74 of the Municipal Systems Act states that “provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users.” It must be remembered of course that increasing tariffs increases the taxes and costs for businesses which in the long run could impact on their competitiveness. This suggests that municipalities need to be creative about how to fund LED. (See Chapter 7 of this toolkit for details of different sources of funding for specific LED projects and programmes.)

It would be useful to note at this stage, that the major function of local government in LED is to ensure that appropriate, user-friendly and fully functional infrastructure exists to promote business development in the local area. The maintenance and construction of infrastructure are funded mandates of local governments.

Furthermore, the central role of local government is to facilitate LED, which means that it should hold consultative meetings and engage in planning and joint research processes on how to promote the local economy. Holding meetings and supporting research processes are not major cost items relative to the budgets available to most municipalities.

The importance of community liaison is reiterated in the Municipal Structures Act (117 of 1998). Sub-section 19 stipulates that a “council must strive within its capacity to achieve the objectives set out in section 152 of the Constitution.

In view of this councils have to annually review the needs priorities and participatory

mechanisms of the communities they serve while also reviewing their own delivery mechanisms and performance in meeting their constitutional objectives.

The National Framework for LED in South Africa

The most important source for dplg's recommendations on LED are contained in the National Framework for LED in South Africa. ⁽³⁾

Flowing from the evolving practice of LED described above and the South African national context described below, there are nine (9) principles identified that guide this framework. These are:

- Through a developmental approach, Government has a decisive role to play in shaping the economic destiny of our country.
- Local Economic Development is an outcome of actions and interventions resulting from local good governance and the constant improvement and integration of national priorities and programs in local spaces.
- Inward investment from the state or private sector will only be effective where the potential and competitive advantages of each area are known and exploited.
- Promoting robust and inclusive local economies requires the concerted, coordinated action of all spheres and sectors of government centred on the application and localisation of the principles espoused in the National Spatial Development Perspective (NSDP).
- Locally owned appropriate solutions and strategies must emerge to support national frameworks in both rural and urban local spaces and should promote sustainable development and sustainable human settlements.
- South Africa competes in a global and increasingly integrated world economy whose threats must be minimised and whose opportunities must be exploited.
- Private companies, including social enterprises and cooperatives, form the heart of the economy and have a crucial role to play as partnerships with public and community role players that will ultimately stimulate robust and inclusive local economies.
- People are the single greatest resource and including all citizens in development and increasing their skills through greater role playing leads to increased opportunities for stimulating local economies.
- Local initiative and responsibility, energy, creativity, assertive leadership and

Source:

⁽³⁾ *National Framework for LED in South Africa, plg, 2006, page 4*

skills will ultimately unlock the latent potential in local economies and will shape local spaces.

The framework states ⁽⁴⁾ that the objectives and anticipated outcomes of LED are:

Objectives of the framework:

- To shift towards a more strategic approach to the development of local economies and to overcoming challenges and failures in respect of instances where municipalities themselves try to manage a litany of non-viable projects or start-ups.
- To support local economies in realising their optimal potentials and making local communities active participants in the economy of the country.
- To elevate the importance and centrality of effectively functioning local economies in growing the national economy.
- To wage the national fight against poverty more effectively through local level debates, strategies and actions.
- To improve community access to economic initiatives, support programmes and information.
- To improve the coordination of economic development planning and implementation across government and between government and non-governmental actors.
- To build greater awareness about the importance and role of localities and regions which globally are playing an increasingly significant role as points of investment facilitated by supportive national policies.

Outcomes of the framework over the five years:

- Analysis of the 52 district and metro municipal economies undertaken and shared understanding across government of the challenges and potentials of these areas developed.
- The competitive advantage of all District and Metro municipalities are identified, incorporated into its LED strategy and exploited.
- All District and Metro municipalities have credible LED programs, which are being effectively implemented by a dedicated local economic development unit or similar entity.
- All Local Municipalities have at least one staff member (at least qualified through the LGSETA LED Learnership) dedicated to coordinating inputs that strengthen

Source:

⁽⁴⁾ *National Framework for LED in South Africa, dplg, 2006, page 5*

the local economy.

- The implementation of the IGRF Act and the effective utilisation of IGR structures occur to encourage and facilitate discussion and joint economic planning among municipalities and with Provincial and National Government.
- All municipalities have innovative spatial development strategies, land-use policies, by-laws and implementation capacity to facilitate fast and effective business establishment and functioning, especially for informal/street traders, and SMEs.
- All municipalities have at least one public-private partnership through which a major investment is being implemented.
- A national excellence centre for monitoring, learning and research in local and regional economies is established.

The role of national government in the framework is to set the scene for local economies to make decisions that will promote prosperity on the ground. Thus the focus is on enabling local leaders, communities, businesses, NGOs, organised labour and other organised groups to realise their collective objectives. In this context, the state sees its role as facilitator, networker, and monitor. There is recognition that a pure market solution is not likely to absorb labour or reduce poverty. Thus LED efforts are expected to design solutions which national and provincial government will work to support.

Municipalities are to play a connector role in LED mobilising resources from national government departments. E.g. funds for skilling can be drawn from the SETAs and support can be obtained from SEDA to assist with the growth and retention of enterprises in their areas. There are also NGOS which can be tapped into for resources.

Municipalities are not intended to run programmes but to create platforms for building partnerships and networking.

LED is an important instrument for putting the “peoples’ contract” into action:

- a territorial concept assuming synergy and partnership among local stakeholders
- through LED people can work towards sustainable growth and development that improves the quality of life
- LED can be the implementation component of a range of government policies e.g. the Microeconomic Reform Strategy, (MERS), the National Spatial Development Programme (NSDP) and the Expanded Public Works Programme (EPWP)

The metros themselves must be capacitated fully to understand the opportunities arising from the policies and instruments provided by national and provincial governments.

Visions of LED

The definition of LED by the World Bank implies that it is primarily a process by which public, business and non-government sectors work together to create an enabling environment for economic growth and employment creation to improve everyone's quality of life.

Practicing LED means:

- Improving economic capacity to improve the future of the local economy; and
- Increasing the productive capacity of local industries, mines, farms, firms, entrepreneurs and workers to improve and build competitive strength.

A strong economy can be built by identifying local strengths and threats. The strengths of the local economy will form the basis for an LED strategy. Each community can then undertake a collaborative process to act on its strengths, weaknesses, opportunities and threats (SWOTs) and build the attractiveness of its area.

Successful private enterprises (and productive public-private partnerships) create wealth and this depends on favourable local conditions. Local governments thus have an essential role in creating favourable environments for business success through its partnership among itself, business and community interests.

While local government has a role in socio-economic development, it is not directly responsible for creating jobs. Rather, it should take active steps to create an environment in which sustainable jobs can be created.

Every effort must be made at national level to ensure that there is access to finance in the form of loans or loans mixed with grants, to enable small producers to establish and grow their businesses. Negotiations should be held with banks to deliver on the provisions of the Financial Sector Charter. At the same time the new legislation to permit local co-operative and dedicated banks for savings and credit must be accelerated.

The National LED Forum should work towards co-ordination of funding and finance for LED and creation of multi-sourced funding streams and also improve sustainable access to investment finance to build local competitive advantage.

Source:

⁽⁵⁾ *Primer on LED, World Bank, 2006*

Provinces, through their development agencies, must play a role in seeking to facilitate finance for small producers, either directly or through agreements with finance institutions.

The metros themselves must be capacitated fully to understand the opportunities arising from the policies and instruments provided by national and provincial governments.

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CHAPTER 3

THE BUILDING BLOCKS OF LED STRATEGIES

- *Understanding the local economy – its sectors and resources*
- *Strategic choices which promote or hinder poverty and job creation*
- *Identifying competitive advantage in the country, region, district and local municipality*
- *Understanding concepts such as value addition, multipliers, leverage, backward and forward linkages, complementarities (of labour) and clustering.*
- *Fleshing out opportunities for job creation and increased community involvement in infrastructure and private sector development e.g. subcontracting and tendering*
- *Identifying the major blockages to investment and poverty reduction*

Understanding the local economy – its sectors and resources

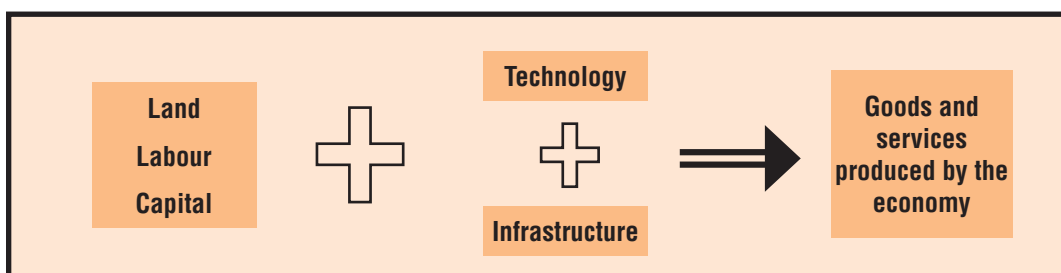
Economics studies the uses of resources that are available, how we use them and the allocation of the gains from production and services across society. In any society, country and local economy, there are varying degrees of resources. Resources are scarce commodities that have to be managed and safeguarded if society is to continue gaining benefits from their use, e.g. water, minerals, soil and oil.

There are three basic resources: land, labour and capital. We use land to produce food and inputs into industrial production. Where land has minerals we mine it for use in industry and for other uses. We apply labour to produce goods and services for markets. We use capital, money and machinery to buy things that are needed for production and services and to pay labour. The method of production that we use is the technology.

Technology: In early economic thinking, technology was considered as the interaction between labour and capital. In the last forty years as computers and machinery have become more sophisticated, technology has become a factor of production. The increasing use of technology has led to a decline in the use of labour around the world. This is one of the key reasons that unemployment has increased.

Infrastructure: Another key resource in industrial and economic development is infrastructure. Industries, farms and mines cannot function without access to reliable “hard” infrastructure. This means that electricity, water and sanitation services, refuse removal and transport infrastructure are an integral part of the ability of the economy to function well and to grow. The recent power failures in the Western Cape are an example of how breakdowns in infrastructure can cause losses in industrial production. Planners need to make sure that infrastructure works well for current needs and also has excess capacity to cater for growth.

Land: Closely aligned with infrastructural needs is the availability of sites and zoning for industries, processing, trade and service activities in the economy. As local government plays a key role in deciding on land use management and regulating land use, spatial planning is a critical input into LED.



Skills: The extent of skills available in an economy is often a key determinant of employment levels. Skills have risen in importance to the point where we now speak of a ‘knowledge economy.’ The skills however have to be applicable to the types of employment opportunities that are available. E.g. where there are minerals, the skills required are in mining engineering, geology and economics. In addition, mines will need construction skills to construct and prop underground tunnels, machinery and skills to transport minerals. Alongside these key skill areas, there will be a need for a range of support services.

For example: Food, clothing and housing for the mineworkers, engineers and others, people to maintain and repair machinery and equipment, etc.

The same logic can be applied to the use of land for agriculture or of natural and cultural resources for tourism. In each sector, there are a host of goods and services that are needed alongside the lead sector to provide for the needs of industry and households.

It is also important to note that resources have to be renewed and have a lifespan, i.e. mines only have a limited amount of minerals to be extracted and land has to be regularly fertilised to continue being productive or there has to be rest periods in the use of land or rotation of crops and grazing to keep the ground productive.

The presence of natural, human and cultural resources, along with the capital and technology to use for the benefit of society, are the major factors in working out the lead sectors in any economy. e.g. If an area has arable land it could be suitable for some types of agriculture. The use of the term, ‘some’ suggests that certain types land is suitable for specific types of crops or animal rearing. The potential for agriculture is dependent on water that is available, the costs of piping water and the availability of farming knowledge, seeds and farming equipment.

Think of a sector as a field of specialised activity in an economy. Thus agriculture, mining, tourism, construction, etc are all areas of specialisation.

The presence and efficient use of natural or other resources become the source of comparative advantage in an economy.

This brings us to another essential link for successful producers; there have to be markets or effective demand to sell the goods. The more the demand the stronger are the opportunities for growth in any sector. Growth in one sector leads to growth across other sectors. When we measure growth across an economy, we calculate the percentage change in performance from one period to the next.

Thus when we work on growing an economy, we think about ways in which we can identify where and what types of demand or needs exist and how we can meet those needs.

Meeting needs and seeking more and different markets implies that we have to be able to produce better quality at lower prices in order to compete on local, national or international markets. Our choice of market decides the extent of demand that we can cater for. However, as we mentioned earlier, we live in a world where trade barriers have all but dissolved. Goods and services are reaching countries across great distances. E.g. Kenyans are growing vegetables which are being used to make salads that are sold fresh in supermarkets in London the morning after the vegetables have been picked and the salads made. Small scale Kenyan farmers have identified that Indians like certain types of vegetables. As Indian technical people and business owners now reside in many different places in the world, they grow these vegetables and they are flown to places where Indian markets exist. As land is scarce and labour is expensive in Europe, Kenyans are also growing flowers which are being exported to Europe.

These examples illustrate that opportunities for niche markets exist in many forms that may not be immediately visible to us. Niche markets may be large or small though their success depends on the buying power of the market that is targeted or the size of industry to which the market is linked. It also shows us that where resources and skills exist, it is possible to diversify into markets we may not have imagined.

A niche market is one where special tastes are catered for or specialised services are required.

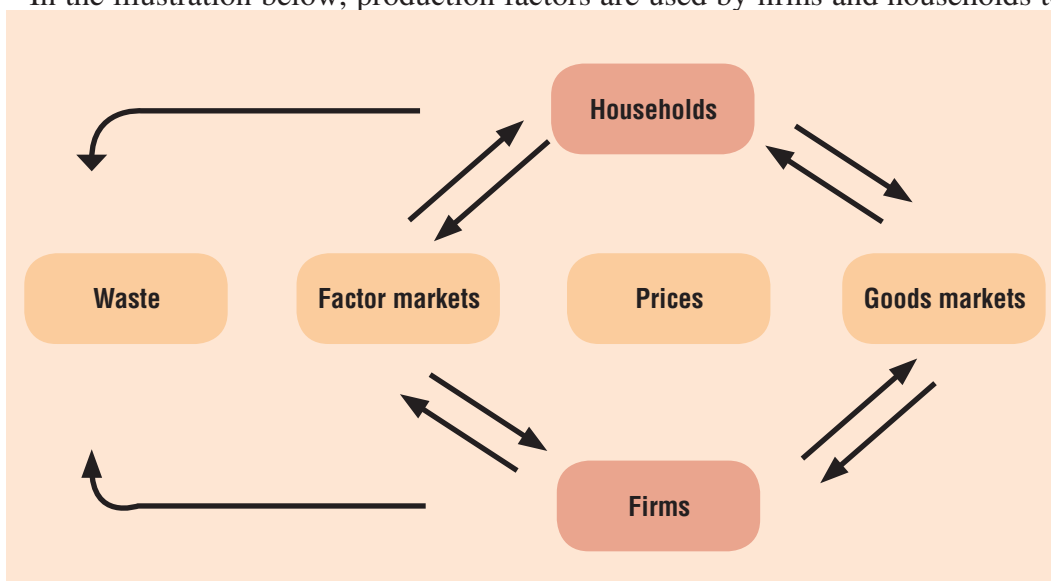
Another example in this context is the increase in business process outsourcing. Outsourcing refers to handing over some parts of a production or service to another company. Companies do this as means of building specialisation and efficiency which simplifies management and thereby can also reduce costs.

One growing example of outsourcing is the use of call centres to provide information and perform IT and telecommunications services which customers require. Thus banks, insurance companies, medical aids, revenue services and even municipalities are increasingly using call centres to cater for aspects of customer needs. Again as people are highly skilled which leads to high labour costs, companies in Europe and the United Kingdom are outsourcing their call centre functions to countries where labour costs less. As result, some British banks have call centres in India. In South Africa, call centres have become a growing area which is creating significant numbers of new jobs. The need for call centres depends on the extent of scale. Scale refers to the numbers of customers a business has.

Thus far we have established that identifying the primary resources in an economy gives us information about potential lead sectors. We have also established that the linkages and efficient use of capital (money and machines), natural resources, labour (knowledge), technology and infrastructure are key factors in building up comparative advantage in an economy.

Comparative advantage refers to the combination of factors that people or economies have that places them in a stronger position. Thus a local economy with more technically skilled people in a local industry using local resources has a comparative advantage in that particular industry.

In the illustration below, production factors are used by firms and households to



produce goods which are exchanged in markets.

While comparative advantage is a useful starting point it is not necessarily a guarantee of success. As we live in a world with high levels of competition, we need to build competitive advantage, i.e. be more efficient at producing the same goods and services at better prices and quality than other economies. This will enable us to build competitive advantage. We will explore this further in a later section.

When we think about developing local economies, it is useful to think about building livelihoods rather than just creating jobs. Employment gives people an income. We need more than just to be able to earn a living. A healthy society considers and creates the means for people to enjoy a healthy lifestyle and be able to grow themselves in a variety of ways. This would include facilities to learn, play, be entertained, socialise, pray, be healed and participate in creating a community in which we believe. The presence of these facilities creates jobs and more importantly, attracts people and investment.

Strategic choices that will promote or hinder poverty and job creation

An economy is able to produce or render services with the resources it has available. Therefore a starting point for understanding the advantages we have is to assess the resources that we have available and who wants to buy them from us. Here our perception of resources in the context of local economies starts to become broader than the basic resources we identified above.

When thinking of resources in a local economy we should therefore consider the social, human, natural, physical, and financial resources that we have in an economy. These are explained in **Table 1**.

Table 1

Social Resources	Social resources refer to schools, hospitals, policing, social services, organised community groups, churches (and other places to worship), social and entertainment facilities
Natural Resources	Natural resources are features which occur in nature: land for grazing and cultivation, minerals or natural features which will attract visitors
Human Resources	Human resources or human capital is measured by the extent of skills that are present in an economy and the skills to provide social services
Physical Resources	Physical resources refer to the buildings, housing, social facilities and different types of infrastructure
Financial Resources	Financial resources includes the range of financial services that people living in an area require as well the instruments and finance required by businesses and government

Thus if an assessment of resources available to a local economy is being conducted, the above resources should be included along with the sectors that dominate in the economy and the extent of economic activity in the area.

While an area may have extensive natural resources which promote activity in mining, tourism or farming, the extent of skill in combination with other resources, in the area determines the extent of exploitation of those resources that is possible.

The use of labour versus equipment in a sector or industry determines the extent of job creation that is possible. Thus we differentiate between more and less labour intensity in certain sectors. E.g. the use of earth moving equipment in construction minimises the use of labour. It is technically possible to select techniques that promote or hinder the extent of labour intensity. This however should be balanced against efficiency, or time taken to accomplish some functions.

It is not always prudent to substitute labour for machines as this could affect the

competitiveness of products or services. If a bank teller had to calculate manually every time a transaction was conducted, the queues in banks would be much longer. It is also safer for customers that transactions are recorded electronically as they are done. In short we have to examine the choices carefully to suit the task, the nature of the product and the markets for which they are intended.

In a number of cases, NGOs and private businesses are working with rural communities to produce mementos for tourists. These tend to be labour intensive and can earn regular income. But if we consider that the tourist market is a limited one and we work out ways to improve the standards and methods of production, their goods could be used to seek international markets. There are cases where this is occurring in the country. If the same producers also diversify the product range into more utility or domestic items, the markets can be extended even further. With a local cultural flavour added to goods, they sell the South African brand and make use of global or much broader markets. This is how we can capitalise on globalisation.

In cases where local producers are given the opportunity to acquire international production standards (through the SABS – South African Bureau of Standards), they stand stronger chances of integrating into broader local, regional and international markets.

Another area where local governments can support job creation is to combine infrastructure development with skills programmes. This has been the norm on large scale projects where local businesses are taught how to become building contracting companies who are able to tender for further work after the life of the initial project. A possible addition to this process is the training of artisans. As larger companies manage the construction of infrastructure, and these projects extend over a few years, artisans can be given the skills, experience and qualifications through the life of these projects. Engendering qualifications enables people to find better paying jobs or to create their own employment with additional business management and marketing skills.

It is important to remember that skills are valuable in assessing competence in an economy but it must be noted that the more the skills are linked into the dominant sectors in the local economy, the stronger the chances of building that economy. It is also useful to note that for every skilled job other jobs are created, e.g. when a person is trained as a bricklayer and is employed there are jobs for brick makers, concrete mixers, transporters and others. This is known as complementary jobs.

Identifying competitive advantage in the country, region, district and local municipality

The concept of value addition is useful to consider at this stage. E.g. South Africa mines a variety of precious metals and semi-precious stones. The extent of processing these stones and metals varies across the value chain. Some semi-precious stones are cut and polished in different countries in Asia and exported to other countries in the world. This is due to the Asian countries having a competitive advantage in cutting and polishing skills and technology. If we could develop the skills and acquire the technology locally and sell at prices which could compete with Asian producers, we could build competitive advantage in the semi-precious stone market.

In order to identify the competitive advantage of each segment (country, region or local) the structure of the local economy must be understood. This is best done by conducting a comparative analysis of towns or cities in order to determine whether the town's economy is relatively specialized, and changes in the local economy's Gross Geographic Product will indicate whether the town is growing or declining. On the other hand, changes in employment within each sector that contributes to economic output will highlight any imbalances between sectors.

Other variables that can be considered include changes in the number of establishments per sector, the size and class of firms per sector and the number and contribution of SMMEs to economic output by sector and size class. This will give an illustration of the economic prominence of each sector and class size.

Local and regional-level analysis is an important ingredient for long-term strategy building and planning. Structured analysis with regard to trends, potentials, threats etc. is specifically important when looking at the bigger region and should be more than just a summary or aggregation of local-level analysis.

In some places regional planning and management instruments are used by the public sector (e.g. the district IDPs in South Africa). The use and results of these analyses should be made an integral part of the preparation for and understanding of competitive advantage.

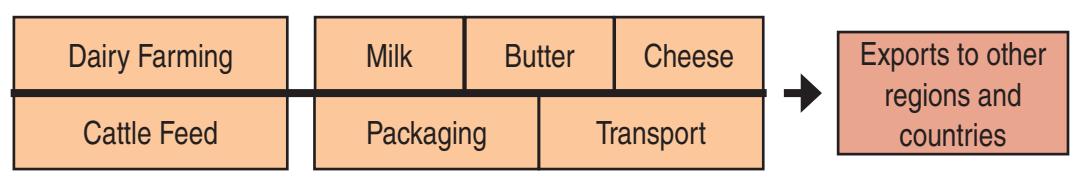
Value chains, backward and forward linkages, complementarity and clustering

A value chain refers to activities undertaken to bring a product from its conception to its end use and beyond. This includes activities such as input provision, design, production, marketing, distribution and support to the final consumer. In some instances few firms in the link control certain links in the chain. In other cases many

firms provide different functions or links in the chain. Activities can be contained within a single geographical location or spread over wider areas or even continents. One link in the chain can represent thousands of firms or could refer to one firm only.

Value chain analysis, cluster analysis and sub-sector analysis look at the competitiveness of local firms in certain sectors and value chains. Value chain analysis, cluster analysis and sub-sector analysis are often used interchangeably, and they often use similar methods or instruments for analysis. Despite the similarities they are still recognized as distinct fields in development. This being said, ideas, concepts and instruments are constantly flowing between these fields.

A Simple Value Chain:



The **illustration above** shows us how dairy farming can lead into value addition activities in the production of milk, butter and different cheeses. There are also complementary activities which are stimulated through packaging industries and specialised transport services which are required.

Value chains are an important means of linking rural or small firms with regional or global markets. Small and rural firms are increasingly under competition from global firms that are part of or supplied by highly organized value chains, as they are often unable to organize themselves in an efficient way to be able to respond to increasing competition from better organized value chains.

From a local and regional perspective, value chains deal with the way small firms interact and form part of the bigger economic systems.

The terms value chains or sub-sectors are often used interchangeably. Sub-sector analysis is the methodology by which the structure and processes of a sub-sector are understood. A key concept within sub-sector analysis is leverage; that small focused inputs can generate commensurately larger outputs. This recognizes that development agencies cannot afford to work with small firms on an individual basis and that therefore they must seek to make interventions that can influence large numbers of firms with a single stroke.

Value chain analysis or VCA also has strong links to the approach of cluster development. The concept of clusters as a “*sectoral and geographical concentration of enterprises*” is described by Michael Porter in his book, the Competitive

Advantage of Nations, as “geographically close groups of interconnected companies and associated institutions in a particular field, linked by common technologies and skills. They normally exist within a geographic area where ease of communication, logistics and personal interaction is possible. Clusters are normally concentrated in regions and sometimes in a single town”. From the definition above it becomes apparent that cluster and sub-sector analysis is closely related, and that a clusters can also form part of a value chain.

Understanding the concepts of value chains, sub-sectors and clusters will allow for development of strategies that promote inter-firm cooperation to collectively improve the efficiency of participating enterprises.

Clustering and networking is particularly pursued in response to competitiveness constraints arising from small firm size, resulting in:

- Cost sharing and participating for more effective innovation and research and development or R&D
- More effective advocacy (influencing policy making) and buyer/supplier negotiation
- Improved access to inputs and services
- More efficient marketing and market access opening possibilities for increased specialisation

Value chains and sub-sectors have potential to improve technology for some components or the upgrading of certain parts of the system, resulting in increased opportunities. This has further potential for unlocking opportunities in niche markets or switching from one industry to another more profitable one. Examples can be a group of manufacturers that switches to the profitable motor industry, or a group of nurseries switch from traditional garden plants to medicinal plants.

Value chain integration ⁽⁵⁾

INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Clusters	Improve the competitiveness and performance of a given cluster in an area	Conduct a cluster assessment that investigates the information flows, relationship, technology usage etc.
		Identify opportunities to upgrade or opportunities to share resources.
		Establish a network broker or joint resource centres
Value chain	Improve the performance of a group of firms within a value chain through the improvement of the value chain	Conduct a value chain assessment that indicates product flow, information and relationships and supporting actors
		Analyze for opportunities and obstacles that can be addressed
Sub Sector	Improve the performance of a sub-sector with a specific emphasis on small firms	Conduct a sub sector analysis to identify constraints and obstacles in order to stimulate growth
		Identify business services used in the sub-sector that could improve the performance further (see Business service cornerstone)
Improve public support to specific sub-sectors or clusters (see also next cornerstone on Investment promotion)	Identify the resource and infrastructure needs of the target sectors and mobilize the public sector to support them	Develop special hard and soft infrastructure
		Promote special interests to other government actors (e.g. Universities)
		Create incentives for investment
Creating networks or sector facilitators or marketing body	Connect businesses in order to create economies of scale, or to optimize resource usage	Identify a host organization that can act as a relationship broker and facilitator between businesses
	Identify potential markets and promote products to them while at the same time communicating market opportunities back to the sector	Develop a marketing body that promotes and markets the products of the sub-sector, cluster or value chain component
Strengthen the support to a sector or cluster in order to improve the institutional layer	Align supporting institutions and business services to support growth and competitiveness	Involve and focus supporting institutions on growth opportunities
		Mobilize business service sector around new opportunities
Improve the visibility and branding of the sectors	Raise awareness of the sector to potential investors and to end markets	See next cornerstone
	Attract more supporting businesses and institutions to locality	

Source

⁽⁵⁾ *Local Economic Development Strategic Planning and Practice Casebook, Cities of Change -World Bank*

Porter's Five Forces Analysis

Assessing the Balance of Power in a Business Situation

The Porter's 5 Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps us understand both the strength of the current competitive position, and the strength of a position we're looking to move into.

With a clear understanding of where power lies, we can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. This makes it an important part of a planning toolkit.

Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable. However it can be very illuminating when used to understand the balance of power in other situations.

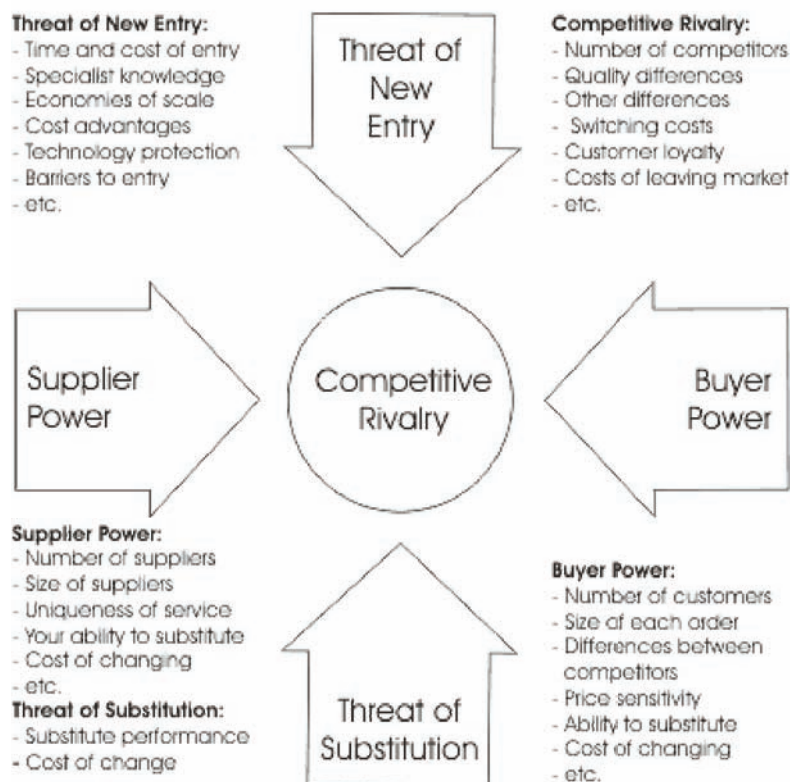
How to use the tool:

Five Forces Analysis assumes that there are five important forces that determine competitive power in a situation. These are:

1 Supplier Power:	Here you assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over you, the cost of switching from one to another, and so on. The fewer the supplier choices you have, and the more you need suppliers' help, the more powerful your suppliers are.
2 Buyer Power:	Here we ask how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to businesses, the cost to them of switching from your products and services to those of someone else, and so on. If you deal with few, powerful buyers, they are often able to dictate terms to you.
3	What is important here is the number and capability of competitors – if there are many competitors, and they offer equally attractive products and services, then it is most likely that local business will have little power in the situation. If suppliers and buyers don't get a good deal, they'll go elsewhere. On the other hand, if no-one else can do what is done in your local economy, then there is tremendous strength.
4 Threat of	This is affected by the ability of customers to find a different way of doing what you do – for example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power.
5 Threat of New Entry:	Power is also affected by the ability of people to enter the market. If it costs little in time or money to enter the market and compete effectively, if there are few economies of scale in place, or if there is little protection for key technologies, then new competitors can quickly enter the market and weaken position of the local industry. If there are strong and durable barriers to entry, then the local industry can preserve a favourable position and take fair advantage of it.

These forces can be neatly brought together in a diagram like Porter's Five Forces. ⁽⁶⁾

Porter's Five Forces



To use the tool to understand the local economic situation, look at each of these forces one-by-one.

Brainstorm the relevant factors for the local market or situation, and then check against the factors listed for the force in the diagram above.

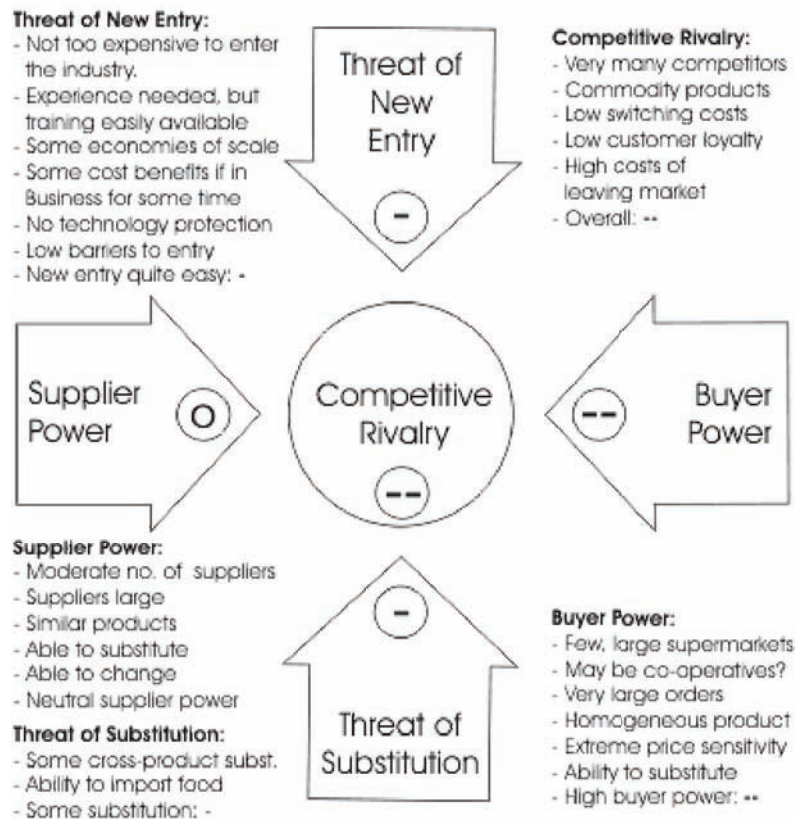
Then look at the situation that is present using this analysis and think through how it affects your local economy. Bear in mind that few situations are perfect; however use environmental scan as a framework for thinking through what can be done change to increase power with respect to each force.

Example:

Dineo Mahlali is deciding whether to switch careers and become a farmer – she's always loved the countryside, and wants to switch to a career where she's her own boss. She creates the following Five Forces Analysis as she thinks the situation

⁽⁶⁾ This tool was created by Harvard Business School professor, Michael Porter, to analyze the attractiveness and likely-profitability of an industry. Since publication, it has become one of the most important business strategy tools. The classic article which introduces it is "How Competitive Forces Shape Strategy" in Harvard Business Review 57, March – April 1979, pages 86-93.

Porter's Five Forces - Buying a Farm



through:

This worries her:

- The **threat of new entry** is quite high: if anyone looks as if they're making a sustained profit, new competitors can come into the industry easily, reducing profits;
- **Competitive rivalry** is extremely high: if someone raises prices, they'll be quickly undercut. Intense competition puts strong downward pressure on prices;
- **Buyer Power** is strong, again implying strong downward pressure on prices; and
- There is some **threat of substitution**.

Unless she is able to find some way of changing this situation, this looks like a very tough industry to survive in. Maybe she'll need to specialise in a sector of the market that's protected from some of these forces, or find a related business that's in a stronger position.

Key points:

Porter's Five Forces Analysis is an important tool for assessing the potential for

profitability in an industry. With a little adaptation, it is also useful as a way of assessing the balance of power in more general situations.

It works by looking at the strength of five important forces that affect competition:

Supplier Power: The power of suppliers to drive up the prices of inputs;

Buyer Power: The power of your customers to drive down prices;

Competitive Rivalry: The strength of competition in the industry;

The Threat of Substitution: The extent to which different products and services can be used in place of those in the local economy; and

The Threat of New Entry: The ease with which new competitors can enter the market if they see that good profits are being made (and then drive prices down).

By thinking through how each force affects a local economy, and by identifying the strength and direction of each force, it is possible to quickly assess the strength of the position and ability to make a sustained profit in the industry. We can then look at how to affect each of the forces to move the balance of power more in favour of the local economy.

Source:

⁽⁷⁾ www.mindtools.com

For more information on this tool, and on Michael Porter's approaches to competitive analysis, read *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Michael E. Porter.

Fleshing Out Opportunities for Job Creation

When a competitive analysis is done, it shows up areas where local businesses can expand and create clusters or add value. Making sure that the appropriate services and business support infrastructure is integral to building competitive advantage. Through these processes, local industry is more likely to build success and thereby increase employment. AS the concept of clustering involves proximity, it is also necessary to ensure that the skills required to build efficiency, productivity and competitiveness are available in the local economy. When planning for expansion of local industry, it vital to project and make provision for the skilled personnel that will be required. As there are Sector and Training Authorities (SETAs) in South Africa, it would be useful to engage the relevant SETA to identify the training and standards that will be required to support industrial and other development.

While the prosperity of local industry is essential in strengthening the economy, we need to think more broadly about ways to create jobs. You may recall that in the first chapter we discussed how mechanisation has reduced the number of jobs in many countries. Thus if we are to create jobs we need to look further.

Other areas that have been mentioned and can be considered are:

- Training local businesses to tender for government contracts
- Involving local businesses in development of housing and infrastructure
- Improving product quality among small scale producers
- Accessing regional and international markets for local products
- Involving training institutions in improving capacity of youth groups, crèche operators and other community structures
- Working with casual labourers to identify private sector opportunities
- Local government sub-contracting some services to small local businesses rather than external large businesses, e.g. renovations, cleaning, and maintenance

If local procurement agencies brainstorm the various categories of goods and services that are purchased, there could be numerous opportunities where local businesses could be employed. Rather than using inefficient suppliers, local business support could be engaged to build competitiveness among local businesses.

Identifying the major blockages to investment and poverty eradication

Investment is key to promoting growth and development in a local economy. When a competitiveness analysis is conducted, opportunities for extending the value chain through new processing or other activities are likely to show up. In addition, spatial frameworks are likely to yield land that could be used for further development.

In linking to areas of potential there are numerous LED strategies that municipalities can adopt that will result in the desired developmental outcomes of poverty eradication, job creation, the broadening or transforming of local economies, and the redistribution of incomes. Some of the strategies which could be used are:

- Linking profitable growth to redistributive development/financing.
- Making explicit linkages between ‘living wages’, human capital development and productivity.
- Development and maintenance of infrastructure and services.
- Plugging the leaks in the local economy, and
- Retention and expansion of existing businesses.

The optimal LED strategy will vary depending on local circumstances and will in part reflect what has been inherited, for example apartheid era biases must be considered so as not to amplify the inherited patterns of the past. Consideration of constitutional mandates and political priorities must be taken into account. Municipalities should conduct sufficient research and consult broadly, garner support, buy-in and ownership from all stakeholders to ensure these issues have been adequately considered.

The kind of LED approach that is implemented in any area will depend on the conditions of that particular area as well as reflect what has been inherited. Thus understanding of the local economy will require researching the local context, local economy and employment structure, local population and labour market

1. Local context –looking at geographical and physical features beneficial or conducive to LED interventions and their significance regionally, nationally and internationally.
2. Local economy and employment structure – detailing the nature and character of the local economy including employment base, dominant economic sectors (agricultural, formal, industrialised etc); levels of flexibility and diversification, support mechanisms, entrepreneurial climate.
3. Local population and labour market – pertaining to demographic trends, incomes, quality of life, cultural characteristics and the interrelatedness of the sectoral,

labour market, social affairs and education policies.

All municipalities developing LED interventions should engage in the identification and audit of local resources. Such audit will reveal potential and guide existing investors in making informed investment decisions assisted by the full knowledge of what is available – for example, what natural resources (i.e. water) kinds of firms located within the municipality, social services and other services are available.

Selection of suitable sectors for involvement is one of the important factors that determine whether the objectives of the LED strategy will be achieved. An LED strategy can be a choice between growth and employment and this has implications for targeting one sector or another. Thus, initiatives to foster growth have to comply with the demand of being broad based, equitable and have to balance the interests of present as well as future generations.

The participatory methodology ⁽⁸⁾ offers the following services:

- The mobilization of local LED stakeholders
- The identification of feasible LED-initiatives
- The improvement of communication and interaction between local stakeholders
- The transfer of knowledge on LED process management to the local level
- The alignment of the perception and understanding of LED between different stakeholders

These services enable local stakeholders to start organic LED processes, characterized by more professional process management, a clear and continuous interaction between public sector, private sector and civil society as well as by an effective institutionalization (use of services).

Participatory methods combine a number of elements to create an innovative approach to launch and sustain LED initiatives:

- the Systemic Competitiveness concept, in particular its emphasis on the role of actors and of appropriate governance structures,
- a variety of elements from strategic management, like the 5 Forces Analysis, and from Michael Porter's work on localised competitive advantage,
- the discussion on market failure and market adjustment as a guiding principle for business promotion,
- the Moderation Method, i.e. a communication tool where workshop participants write on cards instead of just talking,

Source:

⁽⁸⁾ *Results and Lessons Learned from PACA in South Africa: A Summary of the PACA Learning Cases of Ilembe District Municipality and Mbombela Local Municipality, A Ruecker & S Fiedeldei (December 2004)*

- the principles of Participatory Learning & Action on how to conduct rapid yet highly structured research with “optimum ignorance and appropriate imprecision”.

The use of this methodology would bring about an LED environment where local economic opportunities are continuously identified and utilized by the community (direct benefit), which contributes to the local economy’s competitiveness and equitable growth (indirect benefit). Case studies of Ilembe District Municipality (IDM), a coastal district municipality in KwaZulu Natal Province, South Africa demonstrates how participatory methods can benefit a municipality.

IDM, although incorporating major tourism attractions along its coast, faces many of the typical economic problems of South African district municipalities, specifically a declining agricultural and manufacturing sector, an ongoing segregation of black and white businesses and a complete disconnection between the booming tourism sector along the coast and the agricultural hinterland. In order to tackle these challenges at local level, two parallel participatory exercises in agriculture and tourism were implemented in IDM from 20 – 28 October 2003, followed by a participatory set of discussions in the manufacturing sector from 16 – 20 February 2004.

Mbombela District Municipality, the second learning case to be analysed here, is situated in the Lowveld in Mpumalanga and has a land surface of 3331 km². The area incorporates a growing timber industry and Africa’s biggest pulp and paper mill, and is crossed by the Maputo Corridor, the major transport axis between Gauteng Province and the harbour of Maputo. The north includes the town of Hazyview and is an important fruit growing area. Agricultural production in Mbombela includes vegetables, tobacco, nuts, sugarcane, oranges and other subtropical fruits. Numerous game lodges, hotels, conference centres, guesthouses and game reserves cater for the increasing tourist demand in the region. The participatory discussions that took place in Mbombela in spring 2003 focused specifically on the tourism industry around Hazyview.

Which are the lead sectors in your local economy? _____

What economic activities could be added to promote value addition in your local economy? _____

What opportunities can be leveraged to create jobs in your local economy? _____

CHAPTER 4

PLANNING FOR LED

- *The components of LED strategies*
- *Strategic planning sessions – critical outcomes and decisions*
- *Mobilising for participation and partnerships*
- *Assigning territorial and sectoral roles across partners in LED processes*
- *Using LED plans to improving public confidence in municipalities*

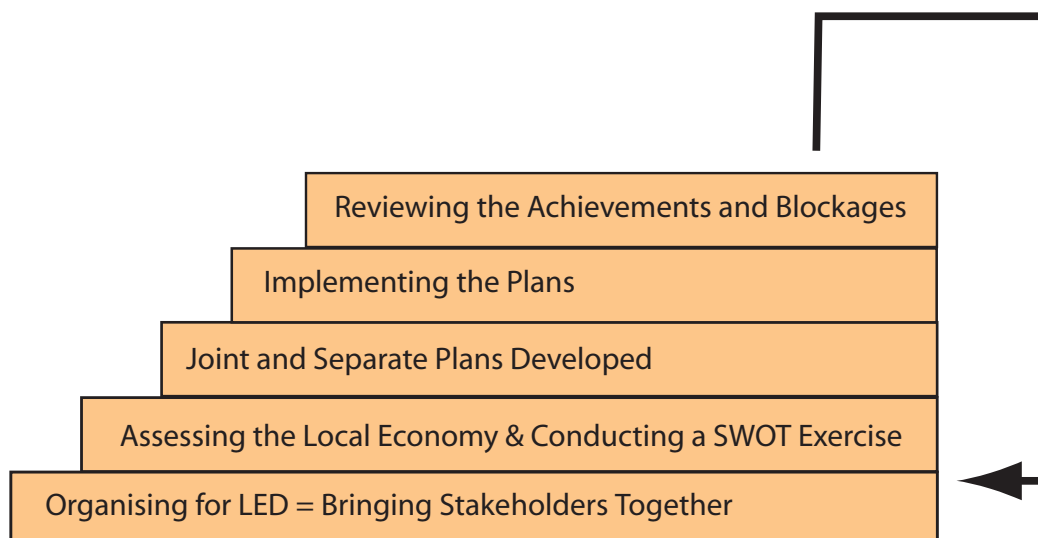
In the previous chapter we established that there are two key information sets that are needed to inform an LED strategy. These are:

- Information about social, human, physical, natural and financial capital that is available in the local economy, and
- Information about the state of the local economy which would include the key sectors of activity, firms operating in the area and the ability of local firms to sustain themselves against the rising tide of international competition.

We now turn our attention to the processes and groups that will be involved in planning various parts of an LED strategy. According to the World Bank (LED Primer, 2006), the main purpose of engaging in planning for an LED strategy is to provide the foundations for a working action plan that will:

- Provide an updated economic and policy framework within which the actions can be implemented
- Bring together partners from all sectors of the economy to deliver common agreed aims and objectives
- Demonstrate how the Local Economic Strategy will be delivered and monitored
- Act as a tool to attract and access additional sources of funding to ensure its overall effective operation

In Chapter 1, we established that there are 5 stages to planning for the growth and development of the local economy:



The Processes and Components of LED strategies

The five stages will be described to begin and then we will explore some critical

aspects in more depth. The description of the five stages is adapted from the World Bank LED Primer, 2006:

Organising for LED

A community begins the LED strategy planning process by first identifying the people, public institutions, businesses, community organisations and other

Inclusivity is vital for successful LED processes

groups who represent and have an interest in the local economy. This is often led by the local government, usually a senior leader such as the Mayor or City Manager. The skills and resources that each of these stakeholders bring to the strategy process provide a critical foundation for success.

In a developed society, the identification of these individuals and organisations would assume some basic knowledge of how the local economy works. Clearly, in South Africa, there are likely to be groups who have little knowledge of how the economy works. In such cases, they should be given some training through a local institution or seek support elsewhere. The Municipal Systems Act of 2000 makes it clear that capacity will be required and allows for municipalities to build such capacity. Ward committees exist to organise efforts and are one possible group through which capacity building can be conducted.

In Chapter 1, we discussed some of the realities of South African society and the economy. In planning for participation, it is important to recognise these realities, though it is equally important to remember that LED should involve all groupings in society if it is delivered in an equitable manner. E.g. if there are separate groups of women in business, all groups should be included, their offerings and needs should be assessed and joint means of supporting all groups can be considered. A similar principle would apply to formal and informal business associations.

It is useful in the organisation stage to establish working groups and steering committees to ensure formal structures are in place to support strategy development and implementation.

Information about the local economy is necessary for growth and development planning

Assessing the Local Economy

In assessing a local economy there are likely to be many variations. We mentioned earlier that in South Africa, there are sophisticated city economies, town economies and rural economies. Each of these types will have different lead sectors and industries and businesses with different abilities to withstand competition and to grow. To assess an economy, it would be necessary to understand the structure of

that economy, its human resource capacity to carry out economic development, as well as how easy or difficult it is to do business in that economy. This stage should include all types of business from major corporations to informal traders and home based businesses. Through such an assessment it will be possible to identify the opportunities and threats to the local economy.

The aim of the assessment is to create an economic profile of the area that highlights its economic development capacity. Also important in the assessment process is the development of comparative information on the position of neighbouring communities and other regional, national or international competitors.

Developing the LED strategy

*A shared vision builds ownership
across all groups*

The process of developing the LED strategy integrates the stakeholder groups

formed and the assessment of the state of the economy. At this stage the groups work from an informed perspective of the challenges, towards constructing a shared economic vision for the area and deciding on goals, objectives, programmes, projects and action plans. This process ensures that all stakeholders are aware of what is to be achieved, how it is to be achieved, who will be responsible and the time frames associated with the implementation of the strategy. Most importantly, the LED strategy and action plans must be finely assessed against the human resource capacity to carry them out, as well as the budgetary constraints. Ultimately the strategy's action plans should be linked to and where appropriate, be incorporated into the work and budgetary program of the local authority. The aim is to leverage strengths, overcome weaknesses, exploit opportunities and deal with threats.

As we discussed earlier, there are many different and sometimes competing interests in South Africa. As a way of managing this, groups could be divided according to the sector in which they have an interest. Thus there could be structures for formal and informal business or there could be structures that deal with town or rural economic issues. It would also be useful to have a skills group which gathers information from the different sector groupings and collates the various skill needs across the economy.

LED plans are likely to reflect needs, commitments and programmes that incorporate spatial plans, infrastructure programmes and business or agricultural development and skills programmes that will support economic development. In effect, LED strategy integrates IDPs and business development in the area. Based on this, the LED strategy should then assign responsibility across the different stakeholder groups involved in devising the vision, goals and programmes and projects.

Implementing the LED strategy

Strategy implementation is driven by the action plans. Ongoing monitoring is provided through the formal structures and

Thorough implementation requires clear plans with defined criteria to indicate progress

evaluation of specific project outcomes ensures that the strategy continues to lead to the achievement of the LED vision, goals and objectives.

Reviewing the LED strategy

Good monitoring and evaluation techniques help to quantify outcomes,

Even the best plans may need to be adjusted to ensure ongoing progress

justify expenditures, determine improvements and adjustments and develop good practices. This information also feeds into the review of the total strategy. The LED strategy should be reviewed at least annually to ensure that the overall strategy itself is still relevant. It may be that conditions have changed or that the initial assessment was incorrect to the local conditions. The LED strategy should evolve continuously to respond to the ever changing competitive environment.

Components of LED Strategies

Given the diversity of economic challenges and the range of possible programmes, LED strategies are likely to entail considerable variation. A guiding principle should be that local economies should prioritise programmes that will create the most impact in view of their goals. Some key components that should be incorporated:

- A balanced set of hard and soft infrastructure programs, i.e. meeting needs for transport, energy, water, waste management and telecommunications networks (hard) as well as social needs for educations, training, business support and healthy lifestyles (soft);
- A summary table highlighting priority initiatives and sectors earmarked for investment with budgets and plans to attract investors;
- A schedule of LED projects consisting of a breakdown of costs and budgetary expenditures, together with projected and specific program targets, which include land area, jobs created and/or safeguarded, new small and medium sized enterprises, learning opportunities and businesses assisted;
- An outline of processes for monitoring, review and evaluation.
- A project implementation table that clearly identifies individual projects with appropriate goals, sources of funding, implementing agency, start date and project duration;
- Clear statements of the nature and requirements of each project, along with

expected outputs and outcomes. These can be used as a benchmarking mechanism for monitoring the progress and output of project as it is implemented;

- A table that clearly identifies LED project partners, funding sources, project duration, target groups and commencement and expected completion dates.
- The plans should document the conceptual links from vision to projects. This will keep the logic consistent and will help in reviewing progress in realising the vision;
- Plans should reflect the resources that partners bring to LED projects and further resources required to achieve goals; and
- Projects should identify the risks that could hinder progress and consider methods to contain or manage these. ⁽⁹⁾

Strategic planning sessions: Critical outcomes and decisions

When a municipality starts on the process of planning for LED, it needs to have clear focus on bringing together the range of stakeholders and at the same time ensuring a strategic focus on achieving balanced development and growth across the local economy. This can be quite complex in practice and it is worthwhile to consider some different tools and approaches which can be used.

Remember that the following approaches can be interlinked and combined with each other: fostering strategic dialogue, scenario-building, and the formal development of an LED strategy. While all three approaches are based on the same the principles of participation, process orientation, incrementalism and the focus on locally available resources and (realistic) local solutions, they can be differentiated via their increasing degree of intensity and institutionalisation:

- **Foster continuous strategic dialogue in the area:** ongoing reflection on territorial development, constant adjustment and refinement of vision and strategy, based on an ongoing process of strategic conversation.
- **Scenario-building:** Scenario building is a popular approach used both in intra- and inter-institutional contexts for developing future strategies that are goal-oriented and robust against core uncertainties. Scenario building stimulates stakeholders to think “out of the box” and to develop creative, flexible and focussed guidelines and ideas for future action. Core factors that may shape the future are defined and classified according to their likeliness and the possibilities to influence them,

Source:

⁽⁹⁾ Adapted from *Local Economic Development Strategic Planning and Practice Casebook, Cities of Change -World Bank*)

and possible scenarios are written against the background of these uncertainties. An analysis of strengths, weaknesses, opportunities and threats (SWOT) of the territory and its organisations helps defining and prioritising possible catalytic activities, as the scenarios and the result of the SWOT analysis are cross-connected. Eventually, the ultimate goal of the territorial development initiative or its organisations is defined on the basis of the scenarios.

- Supporting local government in developing such a strategy can add value to the process (in terms of the benefits of strategy development as described above), if managed and steered correctly. Local government's capacity for strategic planning and resource allocation and the transparency of decisions can be significantly enhanced by a high quality LED strategy. Emphasizing the necessity of flexibility and action orientation of the strategy, introducing multiple perspectives to the LED process and its goals and guaranteeing the participation and buy-in of all stakeholder groups in the strategy are the core elements to be considered when supporting local government in the development of an LED strategy. There are numerous analytical and moderation tools which can support these efforts. ⁽¹⁰⁾

In addition to the 'how' of planning, there has to be a focus on the types of projects that will meet goals of LED. The examples on the following pages illustrate a range of potential projects/interventions to meet goals.

Source:

⁽¹⁰⁾ *Towards A common framework for GTZ's LRED interventions in South Africa, Anja Rücker, Gabriele Trah (unpublished)*

Strategy	Aim	Interventions
Development and maintenance of infrastructure and services	Create an enabling environment Save time, cost and technology	The provision of: Reliable, cost effective municipal service delivery – choose a service delivery mechanism that targets the under-served Efficient infrastructure maintenance Municipal provision of social amenities and facilities (health, recreation and pre-school) Effective housing and settlements policy Appropriate zoning
Retention and expansion of existing services	Assist local businesses to improve their productivity and increase market share Graduate to higher value added levels of the production chain	Development of local business skills (training) Providing advice, capital and technological support Developing under-exploited sectors that have comparative advantages Outreach programmes (identifying specific problems in local economy) Site identification and assistance in locating elsewhere Changes in zoning and fast-tracking development applications Identification and adoption of new technologies (hard/soft) Financial schemes and assistance packages (approach banks) Bulk buying Place and product purchasing Networking

Strategy	Aim	Interventions
Increase spending on products of the local economy	To stem the outflow of money from poor areas	<p>Encourage communities to buy local (understand the reasons for external purchasing)</p> <p>Funding special events and festivals</p> <p>Providing infrastructure using local labour and locally manufactured materials</p> <p>Promoting employee training within local businesses and communities</p> <p>Networking enterprises of all sizes in the local area</p>
Human capital development and productivity	Ensuring that economic development brings social benefits often requires explicit linkages between 'living wages', human capital development and productivity	<p>General and customised training within lead sectors</p> <p>Basic and advanced skills development</p> <p>Targeted procurement policies</p>
Community economic development	Support poverty reduction in low-income communities and organisations	<p>Promote safe savings collectives and financial services, community based environmental management and maintenance schemes, urban farming projects.</p> <p>Support SMME development by providing business infrastructure, service subsidies, technical support through business advice centres, opportunities for involvement of SMMEs in government procurement, network key sectors in which SMMEs dominate</p>
Linkage of profitable growth to redistributive development/ financing	To ensure that businesses investment benefits disadvantaged communities and areas	<p>Example: Construction linkage whereby planning or zoning permission in a profitable geographical area is linked to commitment to invest in impoverished areas.</p> <p>Example: Banks or other financial institutions opening a branch in a wealthier area should do so in a low-income neighbourhood or to invest some of their turnover in local small businesses (Corporate Social Responsibility of private companies, e.g. BMW, ABSA).</p>

Some examples of LED strategies, instruments and targets

The following examples provide an overview of particular interventions that have been employed to address numerous social and economic ills in various locales. As is evident, various strategies and instruments have been utilised in conjunction with each other to attain particular social and economic objectives.

Three examples of where LED interventions have been employed in areas experiencing economic decline are Stillbaai in Western Cape, Welkom in Free State and Stutterheim in Eastern Cape.

What is clear from these examples is that LED interventions rarely rely on one particular strategy, working in isolation. Instead, it is a combination of techniques and instruments that are generally employed to tackle a range of problems that are usually most effective in achieving economic growth, job creation and the general upliftment of social and economic conditions. All these examples relied heavily on partnerships and local ideas to combat problems in their communities.

Example 1: Stilbaai and Melkhoutfontein, Western Cape

Problem	Poor infrastructure, high unemployment, decline in economic activity
Target group	Aged, unemployed
Interventions	Provision of health care facilities, release of land, promotion of tourism through construction of craft centre and promotion of products, securing of private sector and government funds, establishment of botanical garden, training.
Outcome	Expansion of business, job creation, decline in unemployment, increase in tourism
Strategies and Instruments	Development of infrastructure, Development of human capital, Investment attraction and place marketing, expansion of local business, Community Economic development

Example 2: Welkom, Free State

Problem	Economic decline, rising unemployment and job losses as consequences of falling gold prices and depletion of gold reserves
Target group	Unemployed, Small and large business
Interventions	Formation of partnerships between key LED stakeholders, including council, business and academic institutions. Interventions include small business development, skills training, access of land for alternative income generating schemes, marketing of the area, support for SMMEs through free industrial sites, loan subsidies, discounts on services, rental subsidies etc. Large business support such as Agriculture beneficiation, jewellery clusters, Eco-tourism. Development and promotion of sporting facilities
Outcome	Expansion of business, job creation, decline in unemployment.
Strategies and Instruments	Expansion of local business, Community Economic development. Retention and Expansion of existing businesses, SMME development

Example 3: Stutterheim, Eastern Cape

Problem	Economy weakened by political strife, racial violence and regional economic collapse
Target group	Unemployed, informal settlers, small businesses
Interventions	Establishment of Stutterheim Forum and Stutterheim Development Foundation to oversee development process. Consolidation of strong non-racial civic organisation. Appointment of DBSA consultants. Established information centre to assist local business, urban development plan, local labour using labour-intensive practises awarded building and service contracts, IDT funding secured the provision of 900 Site-and-Service schemes and a school was built, using local labour and resources.
Outcome	Rapid economic growth, political stability, increased literacy and education standards, diversification of skills.
Strategies and Instruments	Community Economic development. Retention and Expansion of existing businesses, SMME development, Development of human capital

Mobilising for participation and partnerships

The need for inclusivity in LED processes has been highlighted thus far. We have also noted some of the complexities of involving the diverse groupings in South African society. The key question is how to integrate across society, the economy and the government.

To answer this question, it is important to first look at where the formal mandate for LED processes is usually allocated. National government has mandated local government to be responsible for LED. Since there is no clear distinction between strategic and implementing roles, this is often interpreted in such a way as to place the sole responsibility on local government, which could risk exclusion of some role-players, i.e. business and civil society organisations.

While government is without doubt a key actor in LED, LED efforts can be constrained by such exclusions. Sustainable LED requires clear economic thinking and performance, it is based on economic dynamics and business principles, and local government is not well-equipped nor does it have the necessary capacity to solely drive it. Vice versa, local businesses, while representing the “economic brain” of the area, would be overstrained with the mandate of sufficiently balancing and taking into account of the balance of ecological, economic and social goals. Last but not least, both government and business have to be informed and managed by civil society to ensure the broader acceptance and support of the process.

Consequently, the idea of multi-stakeholder participation in LED has to face two challenges: First, the necessary space must be created for all stakeholder groups to be able to actively participate. A dominance of any one group would inhibit a successful process. Second, each actor must have the necessary space, acceptance and understanding to fulfil the specific role it is best suited for.

Can these roles be strictly defined? While the specific roles may vary in different circumstances, there are some clear general guidelines for orientation: First, the local and/or regional administrative departments should focus on the creation of favourable enabling conditions for the thriving of the private sector. Furthermore, government has to play an important role in addressing market failures such as barriers to entry for new businesses and introducing a longer-term strategic and developmental perspective that goes beyond the planning horizon and capacity of most individual businesses. Second, the private sector and civil society (businesses, chambers and trade/professional organisations, as well as other stakeholders such as NGOs and community organisations) should articulate their interest and commit to the creation of income and employment. Third, the exploitation of business opportunities lies best in the hands of the private sector. Cooperation is reached by

enabling markets mechanisms and LED initiatives to complement each other, hence allowing processes of an active economic development and locational strategies to evolve. The management and moderation of such processes plays an important role and can be the responsibility of any role-player (public administration, organised business or civil society organisations) as long as all sides agree.

In South Africa, the role of public sector in LED is spelled out in clear policy guidelines. The South African White Paper on Local Government (1998) introduces the concept of “developmental local government” which is defined as: “Local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives.” The same document specifies this role further with regard to local economic development objectives. It states that

“Local Government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities” ⁽¹¹⁾

The function of local government in LED is to allocate resources to the creation of an enabling environment (i.e. through the provision of infrastructure and basic services, the management of spatial policies or the design of a business-friendly and efficient administration) or the moderation and coordination of the broader LED process.

In localities with a relative high capacity and competence of public administration, another role for the public sector gains importance: that of an active market development facilitator, i.e. through the use of public funds for temporary interventions to address a specific market failure. Market failures are an important and wide-spread barrier to LED, and government can play a crucial role in both preventing and removing them. To quote John McMillan ⁽¹²⁾: “Markets are subtle organisations. The mechanisms that underpin transacting are intricate.... Markets do what they are supposed to do, however, only if they are well structured... The mechanisms for transacting develop from the bottom up, via innovations made by the participants. Spontaneous evolution is the main driver of markets. To reach their full potential, however, markets need help from the government.”

In other words, the role of government in relation to the private sector is to “develop the frameworks and ‘rules of the game’ that permit space and opportunity

Source:

⁽¹¹⁾ *Municipal Systems Act, 2000*

⁽¹²⁾ *McMillan, John: Reinventing the Bazaar; A Natural History of Markets, New York, 2002, page IX*

for the private sector to operate: building essential capacity, delivering key public services and promoting competition.”⁽¹³⁾

The key role of local government is then to facilitate or integrate participation across civil society and business. Local government is both role-player and integrating force in LED. Its role is to manage the creation of a favorable business climate on the one hand and on the other to construct and maintain infrastructure towards business growth and healthy lifestyles for the communities in its area. A further role as leader in LED processes is to form partnerships with business and civil society and to mobilise support and participation.

Assigning Roles across Partners in LED processes

The importance of participation and partnerships has been emphasized above. For partnerships to work well, it is essential that roles are clearly defined. The role definitions below can be adapted to suit the circumstances in different situations.

Roles and responsibilities of government in LED

To ensure the success of LED, national government should:

- Co-ordinate and align support to municipalities for LED through the IDP process;
- Provide additional support to municipalities implementing their developmental mandate;
- Provide the overall legislative and regulatory framework for LED through the National Framework for LED;
- Maintain strong inter-governmental relationships using and strengthening existing institutions;
- Provide the technical and knowledge resources for municipalities for the implementation of LED;
- Disburse information to provincial and local government about LED and LED support;
- Support and provide guidelines to monitor the outcomes and impact of municipal LED activities.

Provincial government has Constitutional duties with regard to local government,

Source:

⁽¹³⁾ Modified from, *Towards A common framework for GTZ's LRED interventions in South Africa*, Anja Rücker, Gabriele Trah

and these correspond to the responsibilities of the provinces in relation to LED:

- Align and co-ordinate LED initiatives with national and local priorities,
- Make available financial and technical resources to implement and sustain LED;
- Share information regularly (e.g. provincial economic trends, land use, investment, new developments) with municipalities; and
- Monitor and evaluate the impact of LED initiatives provincially.

Local municipalities have the following responsibilities as the key implementation agent of government within LED. Together with the community, local business and government structures at all levels, local officials will need to take responsibility for the development of their local economies. Their responsibilities will be to:

- Ensure that social and economic development are prioritised within the municipal Integrated Development Plans (IDPs);
- Conduct local economic regeneration studies that form a core component of the IDPs;
- Establish LED capacity within the municipality that actively promotes interdepartmental collaboration;
- Establish LED groups within the community to mobilise the efforts and resources of local stakeholders around a common vision;
- Build and maintain an economic data base to inform local decisions and act as an ‘early warning system’ within the municipality;
- Identify and market new economic opportunities;
- Create an ‘enabling environment’ for local businesses through efficient and effective service and infrastructure delivery;
- Improve the quality of life, and facilitate economic opportunities, of people living within the municipality by addressing infrastructure and service delivery backlogs;
- Understand and communicate the complex local economic relations, limitations and advantages to key role players;
- Network with key sectors and role players to create partnerships and projects;
- Motivate and support individuals, community groups and local authorities to initiate and sustain economic initiatives;
- Mobilise civil society to participate in LED and encourage public participation;
- Promote inter-departmental collaboration across line departments; and
- Establish sector linkages and clustering of economic activity.

Keep in mind that municipalities can be co-ordinator, facilitator, stimulator, entrepreneur or developer. The above list is not comprehensive. Constitutionally municipalities need to use their powers to **promote** social and economic development – indeed, there are many possibilities to be explored.

The role of civil society in LED

Local residents must be fully involved in the local development process. For successful LED processes to be community driven:

- A community must have a core of local, capable and respected leaders who are prepared to commit time, priority and belief to LED,
- A community needs to identify and foster such leadership. The active engagement of women and young people in the leadership group is essential,
- Community leaders need to have or acquire the necessary skills, knowledge and attitudes necessary to manage economic change,
- Leaders must operate in a transparent manner and be democratically accountable,
- Leaders must be willing to report, listen and ensure the support of the community,
- Leaders should provide inspiration and participate in developing new layers of leadership,
- The community must adopt a practical development agenda which focuses on realistic and sustainable goals, long term plans and achieving some small visible achievements by getting people involved, a key to empowerment, and
- The goals must be realistic and address the community's needs. To achieve this, there needs to be constant evaluation and adjustment of the action plan.

There is the need for a joint vision of what key community stakeholders want for the collective future of the community, and a commitment to the concepts of partnership and co-operation. For success, they need to organise themselves in a professional manner to make things happen. This requires organisation, structure, processes and a locally based organisation to facilitate and manage developmental efforts. It must gain the communities' confidence and have the support of all role-players.

The Role of Business in LED

- Business needs to recognise the importance of co-operating with government and civil society in LED
- It should organise itself to participate appropriately in building the economy of the area
- While being mindful of environmental management, business needs to work on feasible expansion strategies
- Business should co-operate with government on creating a favourable climate for investment
- Opportunities for clustering should be promoted across business to enhance competitiveness of local industries
- Large businesses could support small business development through advisory and linkage mechanisms
- Larger businesses could help to grow the economy by sub-contracting to and tendering from local small businesses
- Developers of trading areas should ensure that microenterprises are incorporated into their spatial planning frameworks.

There are a useful set of structures ⁽¹⁴⁾ that could be used, “In many developed countries, successful local or regional development is based on policy networks that consist of various government agencies, the private sector, trade unions, NGOs, and other players. Functioning networks in general have been seen as a success factor of development in general, since they seem to be the best organisational form to unleash creativity, innovation and the social coherence necessary for territorial development. But network patterns require a certain amount of social trust that in many developing areas has been destroyed due to ethnic or racial tensions, distrust between the public and the private sector or governance issues such as corruption or the absence of the rule of law.

Networks are also the best organisational form for collaboration and problem solving in cases where government cannot enforce compliance, as is the case of LRED, which has to rely heavily on the voluntary initiative of the private sector. But the functioning of network patterns is highly dependent on good governance.”

The case study below illustrates a successful participatory process followed in Prince Albert to engage in LED planning.

Source:

⁽¹⁴⁾ *Towards a common framework for GTZ's LRED interventions in South Africa, Anja Rücker, Gabriele Trah*

Case Study ⁽¹⁵⁾

In Prince Albert, a small town in the Karoo, the municipality set aside **a week for planning and consultation**. The purpose was to gain a wide variety of opinions on the needs, opportunities and constraints for development in the town. The desired outcome was to come up with an agreed set of development priorities by the end of the week, which would inform the LED strategy to be followed.

In order to ensure broad participation, a wide variety of stakeholders were represented. These included: hospitals, clinics, doctors, youth, schools, churches, crèches, government departments, women's organisations, political organisations, farm workers' association, local businesses, welfare groups, sport and recreation groups, municipality, civics, tourism committee, farmers' association, rate payers association, ABET groups, and the local elderly centre.

The stakeholders participated in a series of workshops on the following topics:

- Developments in community-based welfare services
- Priorities for social and community development
- Putting Prince Albert on the Tourism Map
- Expanding economic and employment opportunities in business
- Promoting innovations in agriculture
- Youth development – needs and opportunities
- Organisation structures for effective development
- Planning the way ahead

⁽¹⁵⁾ *Local Economic Development Training Manual: A Resource Book For Municipal Councillors And Officials, Department Of Provincial And Local Government , October 2001*

Using LED plans to improving public confidence in municipalities

The National Framework tells us:

Improving confidence in municipalities is a critical first step in attracting investment and building loyalty to local areas. The way local areas are governed by municipalities is a key determinant of local economic development. Allied to this is the marketing of localities. This must be in co-ordination with national and provincial programmes.

Municipalities will have to focus on providing good local governance, reliable and effective services and sound administration. The requirements for this are clearly spelt out in policy and legislation and the local government system is evolving in practice. Recognising that everything a municipality does impacts on the local economy it will be necessary to pay particular attention to the following:

- Basic financial management, project management linked to the provision of infrastructure and services in a financially sustainable manner.
- Provision and maintenance of quality and reliable infrastructure and services
- Establishment of clear and well supported spatial policies and land-use management systems with particular emphasis on integrating small and informal traders in business zones.
- Clear and unambiguous policies for economic development at the local level based on market realities
- Speedy and effective handling of development applications for business establishment, property development, and township establishment.
- Sound and strategic property rates and service tariff policies.
- Proper community care/interface, billing and revenue collection systems.
- Communication and marketing of the services and regulations in an inclusive manner

Especially in the metropolitan municipalities and secondary cities, greater attention should be paid to creating more efficient spaces that integrate land and housing (especially social and rental accommodation), trade and public transport systems.

CHAPTER 5

DRAWING UP ACTION PLANS

- *Key Components of Action Plans*
- *Foundations for Implementation:*
- *Partnerships, Networking and Role Clarification*
- *Resources*
- *Management*
- *Some Components of Action Plans:*
 - Intensification of Enterprise Support*
 - Sustainable Developmental Community Investment*
 - Integrated Development Programmes or IDPs*

As communities, business and local government plan for LED, needs and priorities are likely to arise in various areas and joint decisions will need to be made around short term priorities and areas can be deferred to other planning periods. Programmes will probably include:

- Infrastructure development to increase access for businesses and households;
- Business support programmes to retain existing businesses and encourage start-up or relocating businesses to enter the area;
- Spatial planning to promote land acquisition and property development for businesses and households;
- Skills programmes to respond to business and government for greater productivity and efficiency; and
- Social development programmes to increase participation in the local economy and build better lifestyles for the community.

In each area of possible programme activity, there are a range of projects which could arise. How LED facilitation is managed to prioritise the order of projects selected can easily become a dilemma for LED managers as well as local government and community leaders.

There are five key principles to support the dilemma of making choices: (1)

- Pursue a process orientation and incremental approach
- Promote stakeholder participation and networking
- Pursue a market driven approach
- Focus on opportunities
- Apply systemic thinking/systemic competitiveness

The first principle of a process orientation and incremental approach suggests that as processes unfold, communities and businesses will realise the complexities of change in LED. Thus if facilitators build on the principle of an incremental approach, local role-players will work on the basis of the parts adding up to whole. This way planning will assume understanding of establishing well-functioning aspects of the local economy in stages and add to this in a progressive and manageable manner. Some infrastructure programmes and learning among businesses will take some years before the impact of change is experienced in the local economy. Taking an incremental approach enables people to plan realistically.

Promoting stakeholder participation and networking implies that as stakeholders become familiar through working together, and commence planning jointly, they

Source:

⁽¹⁶⁾ *Adapted from GTZ Handbook on LRED*

will learn about the needs of other groups. Through this learning, they work on planning a common vision and as this becomes the guide, they are likely to see priorities differently and see more potential for joint activities. While this possibility does exist, conflict is also inevitable, and facilitators will need to work on conflict management.

Pursuing a market driven approach means that the private sector should be allowed to lead, and wherever possible provide programmes in economic development. This does not preclude government's role in developing the economy, though it does imply that the private sector understands its own needs better. It also means that government's key role is policy making, provision of infrastructure and creating a conducive climate for business to function and grow.

As there are numerous challenges to LED, it is important to start by focusing on areas where there is consensus on opportunities. This keeps stakeholders on board and creates quick wins for LED processes.

The application of systemic thinking means that as plans are conceived, there has to be a focus on changing systems which will leverage significant change. Even if it is something as small as people of different race groups working together in harmony, this is a significant systemic change in the South African context.

When we facilitate LED, we operate across different functional systems within the context of a geographical (= local) system. Systemic intervention in LED therefore requires a thorough understanding of this local system context. Exploring the local system context from such an LED perspective will automatically put the main focus on the local economic (sub)system, as it is this system where we aim at introducing the main changes. However, systemic intervention means at the same time not to lose the other local subsystems – e.g. the political system – and their inter-linkages both within the local system and beyond the local system borders out of sight.

How can we capture this complex systemic context of an LED process in a more practical and structured way? We suggest the following four system dimensions as the main underlying analytical categories for understanding and intervening in LED processes: LED stakeholders, LED communication and networking mechanisms, locational factors for LED, and the management and learning structure of the overall LED process.

With establishing these four LED dimensions as analytical categories, we aim at two goals: First, we suggest that these dimensions together provide a holistic perspective of an LED process within the local system and assist the LED practitioners in always “keeping the bigger picture in mind” while designing and undertaking specific LED interventions. Second, the breaking down of an LED process in four

systemic dimensions helps the LED practitioners in identifying specific points of intervention which do not aim at changing the complete system instantly, but at incrementally introducing change processes which, through complex relationships, can influence the whole system.

Having established the key principles, we can now turn our attention to some of the components of LED plans.

Components of Action Plans

LED action plans should provide specific details on project components including a hierarchy of tasks, responsible parties, a realistic delivery timetable, human resource and financial needs, sources of funding, expected impacts, results, performance measures and systems for evaluating progress for each project.

Projects that can be implemented in the short term and that result in “early wins” play an important role in building momentum and stakeholder confidence. Other projects will have a medium to long-term timeframe. In each case, projects should be “championed” by individuals or a group of stakeholders according to interests, resources, commitment and expertise.

Basic Elements of Action Plans

Project Objectives: Each project should have clear objectives that meet program goals.

Project Inputs: The necessary resources needed to implement the project, e.g. capital and revenue costs, human resource inputs and capabilities, other inputs such as land and buildings.

List of Actions: A summary of the main actions to be undertaken in each project.

Project Outputs: The direct result from the project, i.e., the construction of a business incubator.

Project Outcomes: These are direct results from the outputs, e.g. an outcome of the building of a business incubator could be that four new businesses be established there.

Project Impacts: Impacts are associated with a strategy’s goals, and the broader effect of a project over time, even after the project is completed, e.g., the development of a specific industry cluster based on the innovation centre.

Project Management: Who will take financial and management responsibility for the project (internal to the municipality or external)? Legitimate institutional mechanisms need to be in place or envisaged as part of the plan. It is important that

‘champions’ take primary responsibility for managing a project. If a ‘champion’ is not forthcoming to manage a project, the project should be reassessed as being a credible LED project for inclusion in this particular LED strategy.

By preparing a standard action planning form, decision makers can more easily compare the merits of individual projects as they make difficult selection choices. The following points are important considerations in preparing an Action Plan for each project:

- Project name and program type
- A short description of the project
- A hierarchy of tasks
- Stakeholders and their expected contribution
- Realistic timetable
- Human and financial requirements
- Sources of funding with estimated costs
- Expected impacts and results
- Performance measures and systems for evaluating progress for each project ⁽¹⁷⁾

Foundations for Implementation:

Partnerships, Networking and Role Clarification

While the specific roles may vary in different circumstances, there are some clear general guidelines for orientation: First, the local administrative departments should focus on the creation of favourable enabling conditions to engender a thriving private sector.

Furthermore, government has to play an important role in addressing market failures such as barriers to entry for new businesses and introducing a longer-term strategic and developmental perspective that goes beyond the planning horizon and capacity of most individual businesses. Second, the private sector and civil society (businesses, chambers and trade/professional organisations, as well as other stakeholders such as NGOs and community organisations) should articulate their interest and commit to the creation of income and employment. Third, the exploitation of business opportunities lies best in the hand of the private sector. Cooperation is reached by enabling markets mechanisms and LED initiatives to complement each other, hence allowing processes of an active economic development and locational

Source:

⁽¹⁷⁾ *Local Economic Development: A Primer: Developing and Implementing Local Economic Development Strategies and Action Plans*, Gwen Swinburn Soraya Goga & Fergus Murphy, World Bank, 2006

strategies to evolve. The management and moderation of such processes plays an important role and can be the responsibility of any actor (public administration, organized business or civil society organizations) as long as all sides agree.

In South Africa, the role of public sector in LED is spelt out in clearly. The South African White Paper on Local Government (1998) introduces the concept of “developmental local government” which is defined as: “Local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives.” The same document specifies this role further with regard to local economic development objectives. It states that:

“Local Government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities”

The complex and important role government should and has to play in LED processes can be captured through the following five principles:

Focus on core competence: areas which only government can deliver

Appropriate for capacity: prioritise according to resources and hierarchy of importance

Don't crowd out markets: seek to develop rather than replace private sector activity

Improve equity and access: address market failures that limit access of the disadvantaged

Influence values and culture: policies, education and other government ‘signals’ to encourage enterprise and competition

The definition of LED as a process jointly driven by key stakeholders of the public, business and non-governmental sector implies the necessity of participation. Consequently, stakeholder participation is the key concept that LED leaders work at facilitating. However, effective participation, often also referred to as bottom-up processes, is very difficult to accomplish, requiring good facilitation skills. These participatory events should stimulate local creativity and innovation, empowerment and mobilisation that is often generated by genuine participatory processes and that is so desperately needed for economic growth.

When organising stakeholder participation, the principle of “form follows function” has to be kept in mind. Frequently, committees or LED forums or committees are being established as a favoured vehicle to drive participatory LED processes. In

principle this is a good idea. LED committees or forums should only be established once they have a clear mandate and responsibility. And this often only develops incrementally with different stakeholder groups mobilising around specific actions and opportunities. But a functioning LED Forum can be a great structure to innovate and manage LED initiatives.

In many countries, successful local development is based on policy networks that consist of various government agencies, the private sector, trade unions, NGOs, and other players. Functioning networks in general have been seen as a success factor of development in general, since they seem to be the best organisational form to unleash creativity, innovation and the social coherence necessary for territorial development. But network patterns require a certain amount of social trust that in many developing areas has been destroyed due to ethnic or racial tensions, distrust between the public and the private sector or governance issues such as corruption or the absence of the rule of law.

Networks are also the optimal organisational form for collaboration and problem solving in cases where government cannot enforce compliance, as is the case of LED, which has to rely heavily on the voluntary initiative of the private sector. But the functioning of network patterns is highly dependent on good governance.

Networks are the optimal organisational form for collaboration and problem solving

Partnerships

Possible options include a public private partnership contract, a public-NGO/CBO partnership and a public-public partnership, which defines a partnership between the municipal council and other public sector entities. These partnerships can be used for service and infrastructure delivery or for the implementation of job creation projects.

In terms of the **White Paper on Local Government** municipalities can decide to deliver services directly or contract another organisation to deliver services on their behalf. Each municipality should assess their own capacity to deliver a particular service effectively and to meet demand for that service before contracting another organisation to deliver services on their behalf. Contracting another organisation can only be done without giving away the municipality's "service authority" as they will remain responsible for regulating the provision of the service and setting customer tariffs. The municipal council should also ensure that the planning for the service is properly integrated into the municipality's IDP. They will also be responsible to monitor the implementation of the service agreement.

Contractual arrangements for project level partnerships can be structured in a number of ways.

The most common types of contractual arrangements for project-level partnerships are:

Short-term service contracts whereby the municipality set performance criteria,

Management contracts where the service provider is usually responsible for the overall management of all aspects of a municipal contract,

A lease agreement where the lessee operates and maintains a municipal enterprise, and

Concessions whereby the municipality enters into a contract with the external service provider who is responsible for managing the service enterprise and for operating and capital funding.

These partnerships must take into account the national framework agreement that set out the principles to guide the development of municipal service partnerships. The Framework Agreement elaborates the understanding between the government and municipal unions regarding the objectives, principles and processes for restructuring.

Resources

Through joint planning processes for LED, a number of needs will be voiced and the question of resources for these will arise.

Firstly it is important to recognise that local government is not responsible for providing or funding all the technical and financial resources required for LED. A range of sources for financing LED is discussed in chapter 7 and will not be repeated here. The sources of technical know-how to plan feasibly for LED are important and needs to be considered. Some of the resources which are likely to arise are:

- Facilitation skills
- Conducting social and economic analyses of the local economy
- Budgeting for projects and programmes
- Spatial planning
- Enterprise development
- Building financial services
- Skills planning
- Marketing the local economy

The list of technical expertise can be rather extensive. There is some comfort

however in that local governments are not required to acquire all the resources required on their own. In fact in most of the areas identified above, there are government agencies that have support available in each area. The table below summaries support from different government departments or provides ideas on where support may be accessed.

Programme Area	Sources of Support
Facilitation Skills	Academics, consultants, donors
Conducting social and economic analyses of the local economy	Academic institutions in the area
	Consulting firms, DBSA
Budgeting for projects and programmes	Municipal finance staff, NGO staff, accounting firms
Spatial planning	Town planners, academics
Enterprise development	SEDA,
Building financial services	SAMAF, IDC
Skills planning	SETAs, FET colleges
Marketing the local economy	Advertising agencies
Community development programmes	Social workers, academic, donors

Management

Municipalities are well placed to act as legitimate co-ordinators of LED programmes as they are also responsible for infrastructural development and land use planning functions, which can have a major impact on economic development of a local area. It is critical that municipalities should ensure that they have adequate institutional capacity to play this role.

LED institutions must be inclusive and represent the full range of local stakeholders. Municipalities need to ensure that the objectives of the institution are clear. The core objective of programme level LED institutions is to mobilise the necessary human, physical and financial resources to achieve economic development. It is important to remember that LED is a long-term process. This implies that the institution responsible for co-ordinating LED must be designed in a way that ensures sustainability, consistency and stability over an extended period of time. Municipalities are permanent structures and their participation and leadership at a programme-level can ensure stability over the long term.

At programme-level, LED institutions will need to be able to access capacity to perform basic development functions. In some municipal areas a single organisation may have the capacity to perform functions, such as economic planning; social and community resource development; physical and land use planning; commercial and industrial targeted marketing; and local financing. Some municipalities will be in a position to use their own resources and capacity to drive LED programmes, while other may wish to structure institutional arrangements in a manner which harnesses additional resources and capacity. Institutional arrangements can be structured in a way that supplements the municipality's resources and capacities.

It is important to note that when designing an LED institution the specific situation of the community and the roles with which the institution has been mandated, should instruct the form and structure of the LED institution. The different roles that a municipality can play in an LED process will influence the type of institutional arrangement that is most appropriate in that area. Municipalities should consider whether their role in implementing LED strategies is direct or indirect. This will guide the choice of institutional arrangement. Regardless of the form the LED institution takes it must be given the capacity necessary to perform its mandated tasks.

Institutions designed to co-ordinate LED programmes must have the authority – legitimate power to act on behalf of the municipality and all other stakeholders including the community – and the requisite resources available to the LED institution to make it effective.

Municipal programme level institutions

When a municipality decides to establish an LED unit, these units should begin to address the capacity constraints at local level, reflect local government priorities and how to incorporate them into the IDP. In fact, setting up such a unit may be part of the IDP process. An LED unit will be influenced by a number of factors, such as:

- The role(s) of the municipality in LED
- Co-ordination between LED and the IDP
- Capacity of the municipality
- Nature of the LED approach or priorities (such as attracting investment, community development)
- The priorities of the IDP, since the structure chosen should follow the LED strategy adopted based on the IDP

Some of the main facilitating factors for the establishment of an LED unit include recognition that a municipality is politically accountable for LED (i.e. councillors are key role players in this process).

LED strategies and projects will have been identified within the IDP:

- The IDP will highlight the need for co-ordination of all municipal activities to meet LED objectives
- Budget and administrative support will be identified for LED.

Purpose of an LED Unit

The purpose of an LED unit will be to:

- Coordinate the implementation of municipal activities in a manner that maximises economic development. It is thus necessary for municipalities to talk to different departments to ultimately identify who will form part of the unit;
- Manage the implementation of LED strategies within the IDP;
- Manage and monitor LED projects through baseline and follow-up studies
- Coordinate the municipality's economic activities with those of other stakeholders
- Coordinate municipal LED activities with those of other government spheres
- Manage the municipal LED budget.
- Maintain the LED database and Early Warning System.

Location of LED Unit

It is anticipated that all municipalities will establish an IDP co-ordinating function responsible to the Municipal Manager or Executive Mayor. This IDP function will

also, therefore, play the role of co-ordinating LED strategies and activities with the rest of the functions of the municipality.

The LED Unit will need to be represented within this structure in order to implement the necessary strategies and projects ascribed to the Unit. The Unit can either be a separate Directorate, or part of another Directorate. The critical issue will be for the Unit to have the necessary resources and influence to implement its programme effectively and strategically. The unit will need to have strong support from the Municipal Manager or another powerful champion to remain effective.

The municipal LED unit must be established in accordance to specific rules and procedures. The process involves drafting a report to the relevant council committee outlining the unit's proposed mandate and projected budget. The council committee chairman must table a motion to establish the unit and the council committee must pass a resolution authorising the establishment of the unit.

Structure of an LED Unit

The structure of an LED Unit will depend on capacity and budgetary constraints. Moreover, the structure will be influence the number of and skills level required of staff, whether there is an appropriate budget to allow for work to be carried out (link to the IDP), whether there is a commitment from the municipality and whether the required facilities exist. The municipality should attempt to increase the level of skills within the Unit over time. LED is not simply about project management of community development projects. It is also about being strategic and driving a vision for a local economy. It is about influencing decisions and the operations of the municipality as a whole.

LED Programme-Level Institutions within The Community

In addition to establishing units within the municipality, it is important to have an institutional arrangement that allows for participation and input at community level. This institutional arrangement can take the form of partnerships or forums. It is questionable whether informal arrangements are truly effective. For this reason, it is often better to have formal co-ordinating structures such as LED Forums. The main role of these forums is to coordinate activities of local stakeholders, mobilise resources and commitment, and maintain a common vision. While these are community- oriented forums, it is important for the municipality to be represented in this structure to serve as a link with the LED unit.

The key guiding principles of these forums can be described as follows:

- Must be inclusive and representative;
- Must be participatory;
- Must have a clear and transparent role;
- Must meet regularly and adhere to proper meeting procedures;
- Must receive feedback from project level committees; and
- Must drive a common vision.

Project-Level Institutions

Once a programme level LED institution has been established, it will be responsible for selecting the appropriate institutional arrangements for the implementation of specific LED projects. Because of the wide range of possible LED projects, it is impossible to provide details of the institutional arrangements for individual projects, nevertheless international and local experience indicate that successful project-level institutions share certain characteristics.

Institutions chosen to manage and implement specific LED projects should:

- Match the LED objectives and strategies of the project,
- Inspire confidence in the stakeholders,
- Be capable of producing results,
- Have sufficient staff capacity to implement the project efficiently and effectively,
- Be able to mobilise sufficient resources for the project, particularly financial and human resources,
- Be able to transfer skills from any outside agents involved to the municipality and community members where applicable,

- Be able to minimise the potential liability of the LED programme institution, the municipality and other stakeholders if the project experiences problems, and
- Monitor the progress of the project and satisfy the requirements of government legislation and commercial law.

LED projects may be managed and driven through a number of different institutions, where the municipality plays a less direct role. The municipality should seek to co-ordinate various project level initiatives drawing them together into a coherent LED programme for the area.

Potential Areas for Action Plans

Intensification of Enterprise Support

Every enterprise needs a variety of services to survive, grow and compete, and failure to gain access to these services is often a major obstacle to the competitiveness and growth of enterprises. While larger firms can often create internal functions to address their requirements for specific services (e.g. accounting or marketing), many smaller firms depend on external service providers. Research has shown that a strong relationship exists between the usage of quality business services and the economic performance of a small enterprise.

From this perspective, market access to business and financial services are seen as critical inputs into the production and operational processes of small firms. Later we will consider market access from the perspective of small firms' access to end markets to sell their products to.

The reality is that business service markets do not always function optimally. This has an impact on the supply of business services and the demand for business services. In an increasingly global business environment, small firms in remote localities are under pressure to be more competitive, and hence increasingly require business services that add value. The failure of a specific business service market to function optimally can contribute to enterprise failure or an uncompetitive sector leading to weak economic performance and even stagnation.

Some of the obstacles to the performance of business service markets are:

- Insufficient understanding of the needs of small firms, or lack of awareness that certain services exist,
- High costs associated with finding, contracting and interacting between supply and demand (search costs)
- Competition by publicly funded or subsidised services, even if they are inferior to privately supplied services
- Services not providing sufficient value to customers, hence not being worth the price
- Complacency by service providers, meaning that the market does not respond to demands, or service providers do not know how to improve their service

This field was until recently known as Business Development Services, or BDS. Attention was mainly focused on services that directly contributed to the growth and development of small enterprises. A distinction was made between financial and non-financial services. The financial service sector responded to the needs

to small firms first, and was followed by the BDS field a few years later. This is one of the reasons why microfinance has penetrated rural settings in a number of developing countries.

Business Services includes all services that small firms use in order to perform, compete and grow. In fact, the same thinking and approach would apply to any service that can be commercially applied in a specific region or sub-sector. Examples are network brokering, destination marketing or auctioneering services that are within certain sub-sectors. If these services are not available to sub-sectors in a region, the growth and performance of the sector can be inhibited, especially for smaller firms who cannot gain access to these services from other areas (or internally like large firms do).

While some still maintain that access to finance and financial services is still the ultimate solution to economic growth, others believe that access to a variety of different business services (including financial services) are critical. The table below contains a few examples of business services.

Examples of business services (including financial services and other services)	
Business planning and management services	Production advice and industrial services
Product design and testing	Human Resource Management
Environmental services	Marketing and advertising services
Accounting, tax and auditing services	Financial management
Access to finance	Export services
Courier, postage and transport services	Internet, e-mail and communication services

From a LED perspective, business services hold the key to increasing the performance and growth of small firms within a specific geographic context. The interests in business services are threefold:

- 1 Business services are seen as a catalytic lever to improve the competitiveness and performances of whole sub sectors. It allows for the mechanisms to directly improve the performance of large cross sections of firms without directly engaging with all the firms in a region.
- 2 The Business service sector has experienced major growth worldwide in GDP contribution and job creation in the knowledge intensive industries. Many countries see business services as one of the key export sectors and as an absorber of new skills that are replacing traditional primary and secondary sector employment and investment. Another perspective is that business services are mainly provided by small firms.

- 3 There is an increasing recognition that subsidised and generic service provision does not contribute as much to economic performance and competitiveness as diversified and specialised service provision does. Service providers that specialise and focus are able to add more value per transaction, and can spread new ideas and innovations across larger segments of customers through their interaction with firms.

Due to the nature of small firms, entrepreneurs and business owners are expected to possess a very wide range of skills. When there is pressure on small firms to be more competitive, or when these firms grow, the generic skills of business owners often fall short of the demands. This is when small firms wanting to grow and expand need the assistance of specialised service providers that can add value through the business services that they sell the small firm. These service providers sell their knowledge and experiences to the small firm, enabling the small firm to expand or compete better. Small firms, and especially micro firms, where the business owner has limited skills or only technical skills in a specific industry are even more vulnerable when they do not have access to business services. In the last 10 years there has been increasing international recognition that generic or publicly supplied business services are not having sufficient impact nor sustainable performance, limiting their role mainly to public information and start-up support. Instead, the focus is shifting to the development of functioning business service markets.

While some business services are generic and are used by a wide variety of firms (like courier services) other services are more specific to certain sub-sectors. It may also be the case that in certain cases business services providers specialise in a specific target market thus they are referred to by a certain service category (e.g. Legal services) or they can be very specific to a certain sector (legal services to firms that engage in international trade). Financial services are similar in being a highly diversified sector. While some firms need access to basics like financial planning or a business loan, other firms require working capital financing, debtor insurance, or venture capital.

The Goals of Enterprise Support

In an ideal situation, local entrepreneurs have access to a diverse range of financial and business services at good quality and reasonable prices. Service providers are competitive in terms of value, price and offering; and are constantly striving to improve their service offerings to their customers by being more responsive to their needs. Small firms are aware of the various options available to them, and can engage with reliable service providers in order to meet their service requirements. Thus the range of business services in the market place is diversified and reaches to

the service consumers.

In the LED context, it is especially three issues can hinder the evolution of functioning service markets: Information flows, trust and competition. The core objectives for LED interventions in the context of BS services are therefore to:

- increase information flows between supply and demand of business services, thus increasing overall awareness of the gaps in supply, the service offerings on the market, and the use of the different services
- increase the trust in transactions by improving the knowledge of services and its use
- increase the responsiveness and competitiveness of the business service supply.

Information in the market place

The awareness raising is not a once of activity, but should be seen as an ongoing function that must take place in the marketplace, hence the involvement of institutions and public agencies in the role of advocacy (of specific unmet needs) and information sharing. In essence, the costs, time and risks for service providers and small firms to find each other and to enter into transaction must be minimised.

Free information flow means that suppliers are aware of the demands and constraints faced by enterprises, and strive to respond to these needs with service offerings that are valued by the small firms, hence purchased. Research has shown that small firms are willing to pay for services that show the desired impact in the small firm (if they are aware of the service and the impact). Service providers and supporting institutions make information on the service offerings and service applications available to potential service consumers.

Thus small firms become aware of the offerings and the impact of using these services and know where to buy it should they require the service (or more specifically, the benefit of using the service). It should be noted that the end goal is not that everything is known about each service, as this would be very overwhelming for the small firms, but that they know where to go to find answers. This is referred to as the ‘awareness’ of the existence of certain services or solutions. The goal is to develop the knowledge about where to find certain service providers once they are needed, hence the involvement of industry associations, chambers of commerce and other institutions.

A trusting environment where transactions can take place

Mechanisms to reduce the risk of transacting between parties (supply and demand) are important. The idea is that service providers should be willing to interact with or pursue small firms as customers because they know that they can do ‘safe’ business

with them. Small firms need to know that they can engage with service providers that will be honest about their abilities and the resulting impact of their services. Agreements, contracts or credible references are all mechanisms to achieve a more trusting environment.

One factor that increases the risk of small firms to engage with service providers is when the offer of the service providers is not clearly defined. Small firms need to know what they are paying for, how much of their time it will absorb, and what the impact (or return on investment) would be. Service providers are trying to manage the unknown capacity and other potential shortcomings in the small firm. This increases the risk of the both parties.

Research has shown that small firms tend to appoint service providers that are recommended to them by family, friends and people that they trust. In fact, small firms would rather trust the inexperience of a family member that to engage with a service provider they do not know. Thus mechanisms to introduce service providers, or the recommend them should be considered. Again, chambers of commerce, industry associations that facilitate networking events could be an important stimulus to give small firms exposure to service providers.

Competitive and responsive service markets

While business service markets in urban areas tend to be more competitive, rural areas tend to be underserved. This is caused by a multitude of reasons including the challenges of acute skills shortages in rural areas in service providers, supporting institutions and small firms; weak information flows and a poor institutional environment. Added to this increased costs of doing business (due to distance, remoteness of markets) and the poor infrastructure and you have all the elements of a vulnerable business environment.

In an ideal marketplace, service providers are aware of the needs of small firms, and strive to address these needs with valuable and competitive offers. This means that as the nature of the demand change, so will the offerings of the supply side. This is referred to as the responsiveness of the market to provide a variety of service offerings that responds to different needs. In a responsive or competitive service market, the suppliers will constantly be searching for new techniques, approaches and target markets in order to remain profitable. Small firms would also benefit from this competitive market in that they can negotiate with service providers based on their own specific needs, or they can choose between different service providers depending on the offerings available.

What are can be done?

Major challenges for creating access to efficient and effective support structures for

the local entrepreneurs are:

- Improving the flow of information between supply and demand of business services. This involves raising the awareness of the issues and constraints of small firms to potential service providers, or promoting services that address specific needs to potential buyers. The flow of business information is often supported by non-market players like chambers of commerce, industry associations, development agencies and tertiary institutions. These institutions may not be aware of their role in the promotion of certain business service markets.
- Identifying specific business services that are not being provided adequately to a specific target group. Analyse the cause for the market structure and identify and facilitate the closure of the gap between demand and supply. This requires that a facilitator guide a group of existing service providers through a process to develop a suitable service offer, and may even require some additional support like capacity building of the service providers and marketing campaigns to promote new services to potential buyers.
- A third more intensive approach would be to develop new services and service providers from scratch. This is only feasible where no service provision exists and where it is certain that the required service will be sustainable. The reality is that in places where there is no supply due to a lack of skills there usually is not enough demand to make a service feasible. This may be a viable approach if the supply failure is caused by the market design or other external influences like monopolies or state interference.

A failure in a specific business service market can be identified either:

- Indirectly, through the analysis of a specific target sub-sector, value chain or cluster. This could be through the application of specific techniques like PACA (Participatory Appraisal of Competitive Advantage), Value Chain Analysis (see below), or through normal development work in a specific field (e.g. Tourism development)
- Directly, through the analysis of a specific business service market. This is when a specific service market is targeted for analysis using instruments like a Market Assessment or other kinds of market research.

The use of the market development approach is rapidly expanding to cover not only business and financial services, but also agricultural services, certain public services and environmental sectors. ⁽¹⁸⁾

The approach above can perhaps be more simply understood as below:

Source:

⁽¹⁸⁾ *Local and Regional Economic Development (LRED) Towards A common framework for GTZ's LRED interventions in South Africa, Anja Rucker, Gabriele Trah, 2006, unpublished*

In the 1970s and 1980s, thinking about business development services was similar to that on financial services, i.e. that business operators needed to be trained and this had to be subsidised and provided to enterprises owned by the poor operating in the informal sector. However, as the success and impact of microfinance grew so interest in business development services declined. By the millennium, a new school of thought emerged. It was not dissimilar to the patterns of microfinance development.

One of the major proponents of the Market Development Approach, Gibson (2000) defines its goal:

“Develop a vibrant and competitive, private sector of relevant, differentiated services consumed by a broad range and significant proportion of small businesses.” ⁽¹⁹⁾

The primary departure from previous approaches is the development of a “private sector” of business support services. A further point of departure is the apparent emphasis on small businesses with exclusion of microenterprises based on the unlikelihood of payment for services. The relative costs and benefits of individualised support for microenterprises may have been a further consideration. The motivation for this approach is the recognition that services are at the heart of successful economies. Gibson’s thinking is that development of the services sector would benefit from the addition of business services to consumer services and public administration.

The probable influence in this thinking is the need for regular innovation in business to remain competitive. Given the multi-skilling required in small businesses, the use of specialised services is likely to build efficiency and in the long run also promote innovation. A further influence was probably that sub-contracting as a means to build efficiency and competitiveness among big businesses had proven to be fairly popular in the nineties. These practices, in conjunction with the development of microfinance increased the potential for and appeal of declining donor dependence. Whatever the influences on the market development approach, it is conceivable that a competent, varied and sustainable business support sector is likely to reap rewards for the economy on a number of fronts.

While previous approaches focussed on donors building capacity among agencies to deliver improved services, market development focuses on improving the functioning of markets for business development services. In this approach the donor becomes the facilitator instead of the provider. The issues with and results from past approaches are tabulated below.

Source:

⁽¹⁹⁾ *The Market Development Approach, Alan Gibson, 2000*

Problems with Past Approaches ⁽²⁰⁾

Characteristics	Results
State/donors as providers	Low outreach – among every group
SMEs as weak beneficiaries	Dependence on external support with limited sustainability
Public services	Limited relevance, low impact
Providers decided what's good for SMEs	Market distortion
No transactions	Bloated costs, inefficient practices
Continuous generalised support	

The hope of the Market Development Approach (MDA) is that a functional market for business development services will be created and sustained by demand from businesses. The characteristics and expected results from the MDA are tabulated below.

The Hope of the MDA ⁽²¹⁾

Characteristics	Results
Private sector as provider	Outreach can be increased by market incentives to grow
SMEs as consumers	Sustainable –supply-demand interaction
Services offered in markets	Impact due to demand by SMEs
Transactions	Market is developed
Facilitative support based on market constraints	Cost appropriate to market

The motivation for market development is premised on:

- Past failures
- The dangers of being supply led
- Equity concerns not being addressed
- Market distortion, and most importantly
- **The growing realisation that businesses operate in an environment of market-based transactional relationships.**

If donors and policy makers are to improve business development services for SMEs it means that the market environment for services has to be improved.

In order to implement the MDA, a three-stage process is called for. The first is to analyse the market context, identifying constraints and opportunities for market development. The second stage is to construct a vision for the future. The third stage is to work out appropriate interventions to realise the vision for sustainable BDS.

Source:

⁽²⁰⁾ and ⁽²¹⁾ Gibson, 2000

In analysing the market context, the supply and demand sides have to be disaggregated. On the demand side, there are usually small and medium enterprises that require research and development, product development, advocacy, skill enhancement, information provision, regulation and co-ordination. On the supply side, there is the state, the private sector, business networks, membership associations, and the non-profit sector. To build a match between the supply and demand sides, there has to be decisions and solutions for the problem of who pays and who does. Gibson's primary assumption is that providers of BDS do exist in the private sector and that information about these are needed by SMEs. Further assumptions about the divergence between supply of and demand for BDS are tabulated below:

Divergence between Supply of and Demand for BDS ⁽²²⁾

BDS Providers	BDS Consumers
Limited information about market opportunities	Limited information or awareness about problems or solutions
Skills deficiencies – technical or business	Valuation problems affect willingness to pay
Operational deficiencies – resources, systems, structures	Limited resources to assess or purchase services
Inappropriate products	Environment- distortion of behaviour
Environment – distortions and barriers to activity	

Based on this picture, the key role in promoting BDS is to build business linkages between suppliers and consumers. The types of interventions recommended on the supply side are to develop technical assistance, develop (demand-focused) financial and BDS products and promote venture capital. On the demand side it is recommended that vouchers, matching grants and information is provided to catalyse market functioning. The role of government in this view now extends beyond provision of public goods, addressing externalities, regulating monopolies and overcoming imperfect information. Gibson suggests that governments need to foster markets and promote clustering. This is of course in addition to protecting the poor, providing social insurance and redistributing assets.

Some of the conditions laid for implementing a market development approach are to:

- Take a clear view of the sustainability objective by constructing a functional vision for how markets will work in the longer term;
- Understand how the private sector will be able to promote varied and continuous BDS services and innovations;

Source:

⁽²²⁾ Gibson, 2000

- Ensure that services are finite with a clear exit point;
- Build interventions on market constraints, and
- Ensure that interventions are facilitative rather than delivery oriented.

Although the intention of the MDA was to focus on and build BDS for small and medium enterprises, many agencies extended and have used the approach to design interventions for microenterprises. In developing countries with large numbers of micro enterprises in the same type of activity and lacking access to services and linkages, the approach has proven fairly effective. For example, poultry producers in a rural Eastern European environment were able to grow their market share considerably by introducing them to buyers for urban retailers.

In keeping with the idea that market functioning should be enabled in the promotion of BDS, USAID's AMAP (Accelerated Microenterprise Advancement Project) promotes a value chain approach to BDS for small and micro enterprises. This approach identifies the opportunities and constraints to growth in a particular industry and takes the additional step of identifying the factors that drive firms' behaviour in markets. "These factors include:

- Mutually beneficial relationships among firms that are related horizontally and vertically;
- Learning that takes place through vertical and / or horizontal cooperation; and
- The depth and breadth of benefits from participation in a value chain.

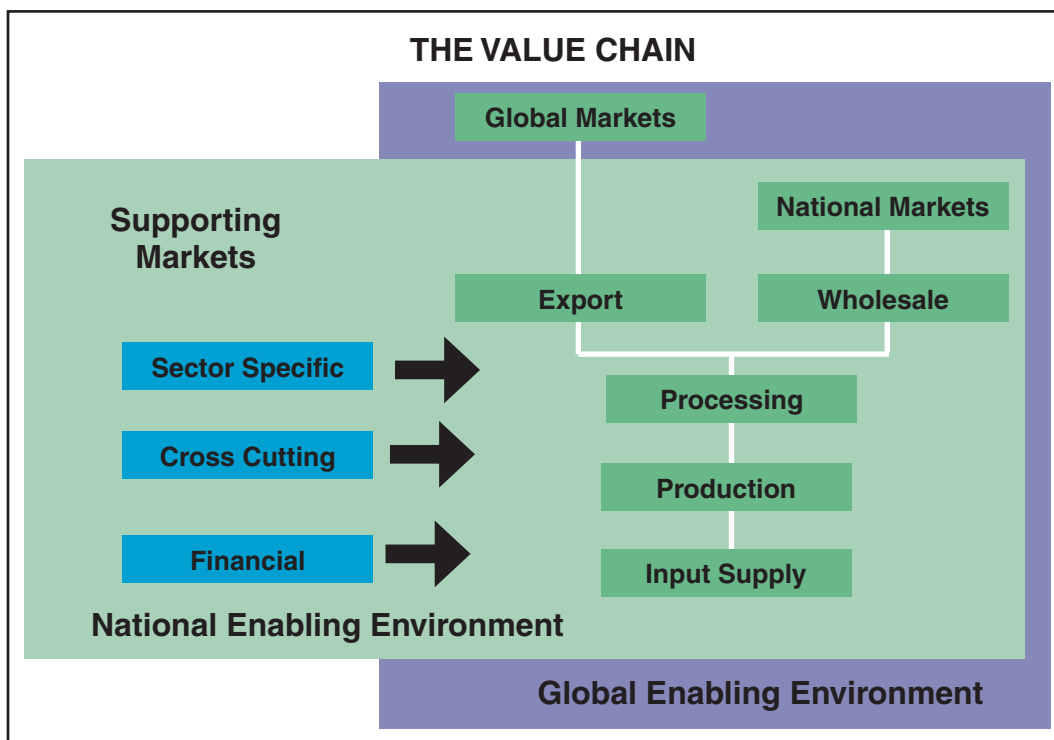
In order to build competitiveness among small and micro enterprises requires a broader view of the industries in which they participate. A picture of the opportunities and constraints for improving competitiveness is built through a systemic view of the fabric of the relationships between firms in a single industry. A diagnostic framework for a value chain analysis would include the following five elements:

- End market opportunities
- Enabling environment (national and international)
- Inter-firm cooperation: Vertical Linkages
- Inter-firm cooperation: Horizontal Linkages
- Supporting markets (sector specific and non-sector specific, including financial services)
- Firm-level Upgrading (product and process upgrading).

The connectedness of these markets is illustrated by The Value Chain. ⁽²³⁾

Source:

⁽²³⁾ *The Value Chain Analysis, Freeman M, USAID, 2005*



End markets determine quality and standards as they demonstrate the demands of the end user. The enabling environment which is local, national and international is affected by trade agreements and standards. They have a significant influence on the constraints and opportunities for growth of an industry. Standards however can be very expensive for MSEs to build. Herein, of course is where opportunities lie for donor and government support in increasing market access.

The national policy and regulatory environment is critically important in the functioning of markets and enterprises. It should create incentives for growth and have channels for involvement in the policy process. This of course applies equally at local and regional levels of policy and enforcement of regulation.

Vertical linkages are the relationships among firms generating raw materials through to production and distribution of the final products to end-user markets. These relationships are critical for transferring learning and embedded financial and business (skills and know-how) up and down the value chain. More efficient transactions up and down the value chain increase competitiveness in an industry. Horizontal linkages are important for small firms working in an industry. Linkages among many small firms can promote bulk-buying, meeting large orders and building economies of scale, thereby increasing their competitiveness and bargaining power. These linkages can be fostered by associations, formal or informal networks, brokers or traders. The use of horizontal or vertical linkages among firms can promote win-win relationships that reduce transactions costs, achieve scale and create incentives for adoption of more value added functions or activities. Vertically related firms

can build win-win relationships leading to increased market share, new skills and a wide range of support services.

Support services are essential for growing or building competitiveness in an industry. These services cover a broad set of areas which include access to raw materials, equipment, financial services, business support services (legal, accounting, industrial, etc.). Given the importance of these services, it is optimal that they should be provided by the market. Such services can play a critical role in building competitiveness especially if it is associated with new technologies or technical services.

Firms improve competitiveness through improving production efficiency (leading to lower prices) or product quality (leading to market differentiation). A firm or industry's ability to constantly innovate determines its ability to stay ahead in the market. This in turn depends on the availability of technology, services and learning channels. Value chains where learning mechanisms are institutionalised are the most competitive.

While promoting considerably more depth in the analysis of market functioning, the value chain approach takes the market development approach to a new level in analysing interventions to promote improved market functioning.

A further area which requires some thinking in enterprise support is how LED units can deal with street trading.

Formalising the Informal Sector / Street Trading in South Africa

There are four critical factors to be recognised when considering the prevalence of street trading in South Africa:

- 1 Most street trading is the result of the push of unemployment rather than the pull of independence or entrepreneurship
- 2 There are very high levels of over-trading among street traders which often leads to low profit levels for the traders. Simultaneously, they crowd in areas and target customers with limited buying power.
- 3 People choose trading as a business because of the low skill levels required which in many cases matches their skill inadequacies
- 4 Street traders are often an unorganised business sector or they are at the mercy of 'leadership' which does not always represent their best interests. In cases where there are organised groups, women tend to be underrepresented as they lack the confidence to take official positions in organisations and they have no time for organisational activities as they have more responsibilities than men do.

The implications of these factors are:

- Many if not the majority of street traders would take a paying job instead if they could get one. This split ambition could jeopardise their keenness to learn how to improve their businesses.
- With low skills, diversifying the types or activities to increase competitiveness among businesses is likely to prove highly challenging.
- While it always possible to learn irrespective of age or educational background, learning is complex for people who have had poor education or have been outside formal learning situations for extended periods.
- Lack of organisation or undemocratic leadership among groups of businesses makes it difficult to negotiate solutions. The exclusion of women, who dominate the sector, would be a serious omission at decision making levels

Any attempt at formalising street trading must take into account the fragility of the circumstances of traders. They are prone to high levels of emotionalism and insecurity when confronted with options for changing their circumstances, especially if these emerge from official sources which could threaten their livelihoods. Traders do however, respond positively to discussions about improving their business prospects and regularising their income streams. Any change processes should therefore be well planned, consultative and incremental. The four factors above should be considered in enhancing their livelihoods.

Firstly, in studies done with traders they have identified their inadequate skill levels as the first barrier to improving business performance. As they often do not consider over-trading as a factor that counts against profitability, they need support with understanding markets and catering to demand factors. Secondly, attempts at trying to “teach” have to use methods which make them ‘safe’ and hold their attention given the challenges faced by adult learners. Thirdly, despite their collective disadvantages, there are entrepreneurs among street traders and other micro-enterprise operators and one does see and hear about innovation and learning by doing that occurs. There are also possibilities for building their confidence, enabling businesses to diversify and offer sustainable solutions for creating longer-term “employment” among micro-enterprises. Among the hierarchy of needs which could emerge from discussions with micro-enterprises, the option of ‘permanent’ premises could be placed high on their list of priorities. The prudence of this in the face of their fragility and low awareness levels needs to be questioned. In other words, “boxing” a whole bunch of problems is not going to make them go away.

In view of these issues, the following processes are recommended:

- Consult with traders about their learning and other interests to improve businesses
- Think through a variety of learning methods that could be used outside of classroom learning
- Separate concepts and business processes that micro-enterprises want to learn about and express these as a series of modules / knowledge groups that would benefit their business performance and diversification strategies
- Make sure that diversification and understanding market needs is a key part of learning areas
- Although classroom learning is not recommended, if it is unavoidable, ensure that learning is related to their circumstances, is highly participatory and that there is a high level learning from each other. Avoid book learning and lecturing at all costs as it runs the risk of damaging their confidence. Group work and field exercises are likely to prove more popular.
- Test the learning methods, e.g. make a pilot edu-tainment video and ask their views on this, or test SMSs as a way of sending knowledge-bytes about understanding and catering for market needs
- Release learning in an incremental process, whether it be on television, discussions in community halls or video showings in people’s homes
- Selling learning videos, tapes, pay for SMSs at accessible prices can also create more income for some

- Lift the barriers to business information in the country – street traders and most micro-enterprises do not have access to the internet, so the use of media within their reach is essential
- When the learning process has taken root and existing businesses start to see opportunities, it is likely that a number of entrepreneurs will start to diversify, start product and services improvement processes and seek more ‘affluent’ markets.
- Work with entrepreneurs on linking to better opportunities, they usually come up with the best ideas for themselves.
- As these processes start to take root, it would be optimal to work with the businesses to seek premises with a view to building diversified market share, and providing better products and services. These could be sheds for crafters, or disused premises owned by municipalities or kiosks offered by companies
- One option for premises is stalls around taxi ranks which offer a diverse range of products and services that people want to pick up on their way home. Having done their ‘homework’ business people will know better what to offer, rather than the current range on offer. A good comparison here is Japanese small markets. As use of trains is the norm in Japan and people live in small homes, every station exit route is lined with small stalls offering a range of daily needs. People then buy on the way home daily. There is thus regular trade for the businesses and fresh products / food daily. It is also customary to take sweet gifts when visiting or going to dinner. It is always possible to buy gift wrapped packages on the way there on any day of the week.
- Encourage them to think of theme markets linked to other businesses or basic functions they could offer big businesses in their localities. With BEE being a prerequisite for companies, even purchasing chickens, fruit or beaded wire-hangers among other things could lead into more ‘sustainable incomes than the current over-trading. Given current growth rates, established businesses could well be willing to expand through sub-contracting a range of rudimentary functions
- Build bridges for better product design and quality. E.g. Enable people in food businesses to acquire health and safety standards. This could lead to more stable incomes, by cooking and delivery to homes and businesses. Link backyard metal workers and car repair people to SETA funds to acquire certificates of competence which could enable them to extend their markets.
- Work with the businesses on setting rental levels or purchasing of stalls in ‘markets.’ This is likely to create a tradable asset for the business owners.

- Work with the traders on establishing maintenance and advertising and security for their markets.

In summary offering businesses the opportunity to diversify, understand changing market needs and preferences and increasing profitability holds more promise of 'sustainable' jobs than simply providing shelter for micro-enterprises. It is essential to recognise that there is unlikely to be as many viable businesses as there are micro-enterprises or traders at present. On the other hand offering opportunities to those willing and able to diversify is more likely to increase the potential for the growth of micro-entrepreneurs who will then become employers. Any attempt to simply provide premises is likely to bring forth resentment if the 'wrong' type of structures is adopted or even worse, there could be a scramble for premises which could also cause resentment among those who could be excluded. Municipalities are advised to acquire the support of external facilitators to work with street traders. Once they are organised, many of the services they require can be provided on a partial subsidy basis or local companies could be asked to support their development as part of the BEE programmes or through corporate social responsibility.

Sustainable Developmental Community Investment

In our discussion on forms of support required by businesses, access to financial services was one that was mentioned. While it was believed that businesses required credit, international learning has shown that they require financial services as savings and insurance play a key role in building assets and safety nets. We start by understanding how these ideas evolved.

The Evolution of Best Practise in Microfinance

The first part discusses the progress of financial sector development internationally and locates the South African context in that process.

The roots of micro finance internationally, date back to the 1970s. At that time, the idea of growing the “informal sector” now known as the micro enterprise sector gained popularity as one of the means to expand the economy and reduce poverty by inclusion of entrepreneurs on the margins. It was assumed, then that credit was one of the means to grow this sector and further assumed that this credit should be subsidised as the poor would not be able to afford cost recovery rates. Simultaneously, in Asia and Latin America, innovators were developing new products and methods for providing credit to the poor. By the 1980s, it was realised that subsidised credit was dependent on “political fashion” and it was also learnt that it was possible for agencies providing credit to the poor to become financially sustainable. A further key piece of learning was that the poor needed access to savings as much as they needed credit. Given that asset building is a key feature of poverty reduction, this is not surprising. Due to this, there was a shift from micro credit to micro finance, based on the recognition that the poor (read un-banked) required the same set of financial services as the rest of society ⁽²⁴⁾. In addition to the types of products and systems discussed here, there is widespread recognition for credit unions, village banks and other types of institutions, which can and do service the micro market efficiently and sustainably. The addition of micro insurance as providers of safety nets for the poor is a relatively recent advent in micro finance.

Thus by the 1990s an international movement on providing financial services to the poor had grown. The power of this movement is reflected in the vision of Women’s World Banking, “Building financial systems that work for the majority.”

Source:

⁽²⁴⁾ *This view is further articulated in the New World of Micro Enterprise Finance edited by Elizabeth Rhyne and Maria Otero, Kumarian Press, 1994. Here a new approach was devised known as the Financial Systems Approach, which recognises that the financial system needs to be expanded to include the poor and unbanked.*

The basic tenets of this movement are:

- That provision of financial services to the poor is desirable and necessary;
- Offering credit to the poor can contribute to poverty reduction when the credit is invested for good returns as in a business but this depends on the opportunities and markets in the environment where the business is run;
- Despite the fact that credit provision in itself does not reduce poverty, provision of safety nets for the poor through safe savings is essential;
- That the poor can afford to pay cost recovery rates for credit as the returns on the investment are more important than the cost of the funds;
- While cost recovery rates are possible, it is still important to build efficiency and scale;
- Institutional efficiency is built by increasing the case loads of staff, reducing transaction costs of the lender, and achieving and maintaining high recovery rates and scale by building on the numbers of clients reached by the institution;
- Sustainability becomes possible by progressively increasing efficiency levels and building outreach, i.e. institutions become profitable by reaching large numbers of clients at the lowest possible cost; and
- As poor people often do not have assets, collateral substitutes are necessary. These may take the form of group guarantees, peer pressure, community standing or other means.

The experiences of a number of institutions achieving the conditions outlined above, have led to a new movement, which focuses on the commercialisation of micro finance. In India, SEWA and SHARE and in Latin America, especially in Colombia and Bolivia a number of institutions have been trading on money markets to access funds to on-lend since the millennium. These institutions are now linked to ratings agencies (e.g. PlaNet Finance and Micro Rate), the results of which enable them to link with sources of finance. Another and probably more popular option for commercialisation is transformation from NGO or non-profit status to becoming a bank. There are now a number of successful examples of such transformation. Amongst others, these include the transformation from Prodem to Banco Sol in Bolivia, K-REP to K-REP Bank in Kenya and ACLEDA in Cambodia.

The choice to transform to a bank is by no means simple and involves radical realignment of the institution especially at the levels of ownership and governance. The key change at the levels of governance is the shift from a poverty or development orientation to one of meeting investor expectations. In addition, there has to be re-consideration of the products offered, the image of the institution, the condition of the premises, strengthening of technology, systems and human resources, as well as

a new orientation to marketing.

This international movement has also built on policy and institutional frameworks. These are designed to encourage the development of an environment conducive to the proliferation of a variety of institutions to build an inclusive financial sector. At the policy level, it is recognised that there is a need for a regulatory framework, which allows for the development of the various services that are needed. One of the features of such liberalised financial frameworks is that interest rate regimes should be unregulated to allow cost recovery (at minimum, though profitability is optimal). The framework also allows for a variety of institutional types such as credit only NGOs and private financiers, credit and savings cooperatives, village banks, commercial banks, business NGOs, and grass roots savings groups (ROSCAs). The extent of the regulation of such institutions depends on the risk associated with the products they offer.

In the late 1980s and early 1990s, based on the success of Palli Karma Sahayak Foundation (PKSF) in Bangladesh and the Sri Lanka National Development Bank, there was recognition for wholesale financiers to serve micro finance institutions. As South Africa had started moving towards democracy in the early nineties, policy makers were persuaded to adopt the wholesale or apex model to stimulate, finance and capacitate the microfinance sector. Although the feasibility of such institutions has since been challenged internationally, South African policy still applies this model through a housing and enterprise wholesaler.

In South African policy provides for access to credit and savings services are accessible through banks³. It has been recognised internationally that savings and credit are equally important in serving the financial service needs of businesses and the poor. Development finance has now been extended to include savings to build assets, insurance to build safety nets and credit for asset building and productive purposes such as housing, agriculture, and enterprise development.

The predominant approach now adopted among a host of international agencies is termed the sector development approach. UNCDF is one of the proponents of the approach. Sector development is promoted through co-operation among relevant government departments, the central bank, donors, MFIs, banks and any other grouping which is involved in financial sector. The motivation for this approach is that balanced growth or development is more likely with a financial sector that caters for the needs of the majority. (See www.uncdf.org)

Based on this approach, LED units can approach SAMAF, the South African Microfinance Apex to be linked to local microfinance institutions. Khula Enterprise Finance and the IDC can be contacted for guarantees or finance for medium and

larger enterprises. LED units can also establish a finance committee which works on linkages between local businesses, national agencies and banks in their area. Businesses will benefit from understanding how financial institutions work and what is required to access services.

If the need to establish institutions arise in the local context, there are two types of registration which should be considered:

Community Development Trusts

A Community Development Trust (CDT) is a way of managing funds and assets, which have been reserved for a specific purpose within LED. A CDT in LED will usually act as a channel and administrator of funds or other assets for the implementation of LED initiatives. A CDT comes into being when the founder or donor hands over the control of certain funds or assets to another party (the trustee), who must administer those funds and assets for the purpose of LED. Neither the donor, nor the trustee enters the arrangements for personal benefit.

The key advantages of establishing a trust are that it exists independently of its trustees and beneficiaries providing limited liability for its trustees and beneficiaries and has certain tax advantages. The disadvantages are that the trust is not a “legal person” and has can be ineffective vehicle for implementing developmental projects. CDTs are geared to channelling funding and are often used together with other institutions that are geared towards managing the implementation of projects.

Section 21 Companies

A Section 21 company is a non-profit company. It may not distribute any profits it may make to its members. A Section 21 company that is formed for the purpose of implementing LED must therefore reinvest any profits it realises back into LED implementation. Section 21 of the Companies Act (Act 61 of 1973) provides for an association of at least seven persons or organisations to be incorporated as a company if the association meets the following requirements:

- The Section 21 Company must be formed for a legal purpose,
- Its objective must be to promote a cultural or social activity or group interest,
- It must intend to use any profits or other income it might make in promoting its objectives and
- Its memorandum of association must state that no income or property of the association shall be distributed to its members in any way, but will be used to further the objective.
- It must also state that, if the company should be closed down, any assets of the association after the payment of its creditors will be transferred to another

association or institution having a similar objective.

The establishment of a Section 21 Company is significantly more complex than the establishment of a trust. The Section 21 Company has certain advantages for LED. The Section 21 Company has the status of a legal person and has limited liability in the case of bankruptcy. The independence of the Section 21 Company allows for flexibility and effectiveness and has the structure and management style of a commercial enterprise, which operates to enhance transparency minimising any abuse of the company. Disadvantages include the fact that they can be expensive and time-consuming to establish and their structure may make decision-making more complex and time-consuming. A negative aspect of its independence is that the founders may lose control of the company.

Legal advice should be sought when deciding on establishing trusts or section 21 companies for LED programmes.

Integrated Development Programmes or IDPs

Under the new Constitution municipalities have been awarded major development responsibilities to ensure that the quality of life for the citizens is improved. The new role of local government includes the provision of basic services, promoting democracy and accountability and instating processes towards eradication of poverty. Preparing an IDP enables municipality to be able to manage the process of fulfilling its developmental responsibilities.

This will ensure the proper management of the planning process and requires close co-ordination between those responsible for the IDP, and those responsible for the LED in a municipality. The district council, in consultation with its local municipalities, must adopt a framework for integrated development planning:

- To determine procedures for co-ordination, consultation and alignment between the district and the local municipalities and therefore bind them both.
- To guide each local municipality in preparing the process plan.
- A time schedule for the planning process must be included
- Roles and responsibilities need to be defined.
- How the process will be monitored must be stated.

Integrated development planning is an interactive and participatory process. The municipality must therefore allow and encourage public participation. It must facilitate consensus around the vision of the LED within the locality and within any network or linkages that are promoted. Due to the participatory nature of the IDP process it takes a municipality approximately 6 – 9 months to complete an IDP and this timing is closely related to the municipality budget cycle. During this period delivery and development continues. The IDP is reviewed annually, which could result in necessary amendments of the IDP plan.

Advantages of an IDP in local economic development

- Through the IDP, the municipality is informed about the problems affecting its municipal area and, being guided by information on available resources, is able to develop and implement appropriate strategies and projects to address the problems.
- It helps municipalities make more effective use of scarce resources. The municipality can focus on identified and prioritised local needs taking into consideration local resources.
- This enables them to search for more effective solutions by addressing causes, rather than just allocating capital expenditure for dealing with symptoms.
- The IDP helps to speed up delivery by providing a tool which guides where

investment should occur.

- It encourages public participation and offers decision-making mechanisms that will arrive at realistic project proposals taking into consideration the limited resources.
- Where there is a clear municipal development plan, private investors and sector departments are more willing to invest their money.
- The IDP will strengthen democracy and institutional transformation through transparency and inclusiveness. It engages different socio-economic groups where people live and work.

Integrated Development Programmes (IDPs) ⁽²⁵⁾

The Integrated Development Planning is a process, through which a municipality prepares a strategic development plan. It draws together all the development objectives of a municipality including Local Economic Development (LED), and enables strategies to realise those objectives to be formulated in an integrated way. This means that everyone is working towards the same goal.

The IDP is a comprehensive plan for the development of the local area. It includes long-term vision, assessment of existing level of social and economic development, development priorities, development objectives, spatial framework and land development objectives, operational strategies, municipal budgeting and other resource allocation.

By drawing together the development objectives, priorities, strategies and budgets in this way, the IDP helps to ensure co-ordination between LED and other initiatives of government. The IDP is now the basic unit of planning for government as a whole.

The LED Regeneration Study forms part of the IDP. The LED toolkit should be used from the preliminary steps of the IDP, which include:

- the assessment of the current situation in the municipal area,
- the assessment of the needs of the community,
- the prioritisation of needs and the setting of goals to meet those needs.

It is important to note that the IDP process is the single, inclusive planning process within which other processes must be located. LED must be fully integrated within the IDP. Indeed, if a municipality is being developmental and responding to local development problems, then it needs to establish a clear vision and objectives

Source:

⁽²⁵⁾ *Local Economic Development Training Manual A Resource Book For Municipal Councillors And Officials, Department Of Provincial And Local Government , October 2001*

that tackle these issues. For example, poverty and unemployment remain the key challenges facing municipalities in South Africa. IDP objectives need to include targets for meeting these challenges. LED strategies can then be used to assist in the meeting of the objectives. The entire working of the municipality will need to become more integrated and more focused on developmental outcomes.

The Legal Status of an IDP

The Municipal Systems Act (MSA, 2000) provides municipalities with a legal framework in which to plan for integrated development. The MSA requires every council to prepare its own IDP, which will guide them for 5 years. This means that the integrated development plan is linked to the term of office of the elected council. The newly elected council can adopt the IDP of its predecessor should it feel appropriate to do so or develop a new IDP (taking the existing documents into consideration). The form and content of an IDP document is largely subject to the discretion of the municipality, with exception of those contents prescribed by the MSA.

The IDP Process

The first step in the planning process is the drawing up of an IDP process plan. This will ensure the proper management of the planning process and requires close co-ordination between those responsible for the IDP, and those responsible for the LED in a municipality.

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The IDP is reviewed annually, which could result in necessary amendments of the IDP plan.

Responsibility for Managing the IDP Process

Integrated Development Planning is a mechanism to manage the affairs of the municipality and the municipal area and hence, it holds a very high status in the municipality. In terms of the Municipal Systems Act (MSA), the Executive Committee or Executive Mayor has the responsibility to manage the preparation of the IDP or to assign this responsibility to the municipal manager. In most municipalities the IDP co-ordinator, linked and reporting directly to the office of the municipal manager and the Executive Committee or Mayor, is appointed to manage the process.

Preparing an IDP is a legal requirement of the MSA, and the responsibility to prepare and adopt IDP lies with municipalities. However, this is not the only reason why municipalities must prepare the plans. Under the new Constitution municipalities have been awarded major development responsibilities to ensure that the quality of life for the citizens is improved. The new role of local government includes the provision of basic services, promoting democracy and accountability and the eradication of poverty. Preparing and having the IDP therefore enables the municipality to be able to manage the process of fulfilling its developmental responsibilities.

Institutional Arrangement and Capacities

The elected council is the ultimate decision-making forum on IDP but the integrated development planning process is participatory in nature and requires input from various role-players. For this reason the municipality must adopt an appropriate approach and also put in place appropriate structures to ensure effective participation by all stakeholders.

Integrated development planning is an inter-governmental system of planning, which requires involvement of all three spheres of government. Some contributions have to be made by provincial and national government to assist municipal planning. This promotes intergovernmental coordination by facilitating a system of communication and co-ordination between local, provincial and national spheres of government.

The Metros, the Local municipality and the District municipality need to prepare and adopt an IDP. The District municipality must also provide support to poorly capacitated local municipalities and facilitate the compilation of a framework, which will ensure coordination and alignment between local municipalities and the district. District Councils play a key role in the co-ordination of the IDP process,

and can facilitate the development of appropriate regional LED strategies through the IDP process. The District Council can access technical and financial support from national and provincial government, as well as regional developmental institutions.

The Provincial Department of Local Government is responsible for:

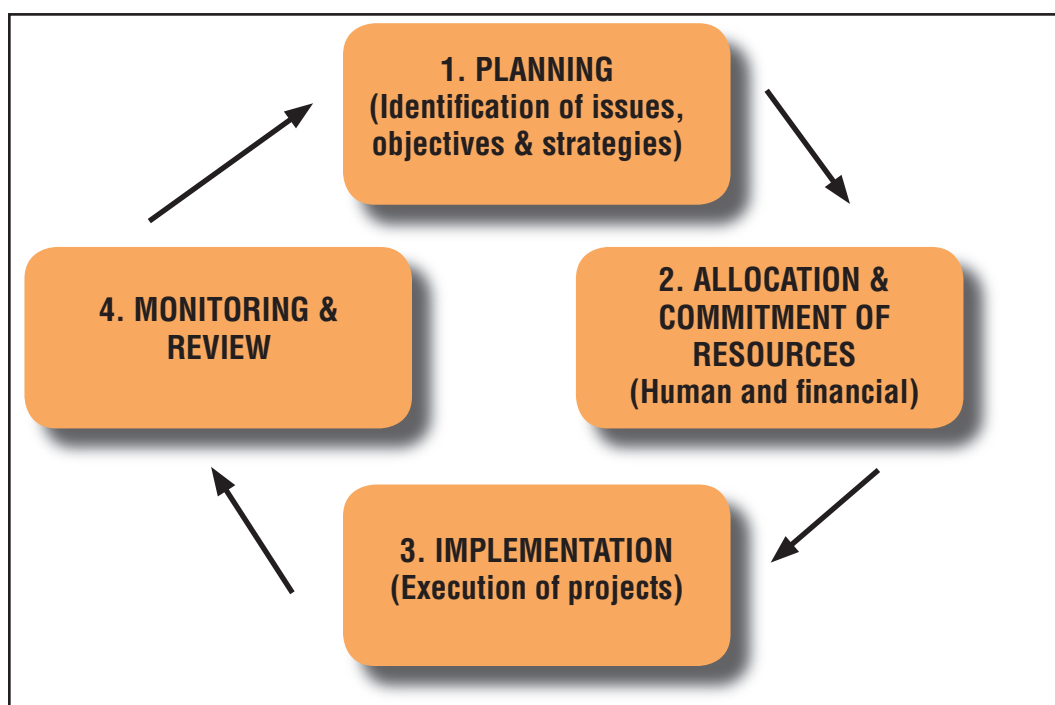
- Co-ordinating training
- providing financial support
- offering general IDP guidance
- monitoring the process in the province.

The province is also responsible for facilitating co-ordination and alignment between district municipalities including facilitating resolutions for disputes between the municipalities. Province is also responsible for assessing IDPs and facilitating the alignment of IDPs with sector department policies, programmes and budgets. The various Sector Departments must provide relevant information on sector department's policies, programmes and budgets. They need to contribute sector expertise and technical knowledge to the formulation of municipal policies and strategies. They must be guided by municipality's IDP in the allocation of resources at the local level.

The National Department of Provincial and Local Government must issue legislation and policy in support of IDP, including IDP guidelines. They are responsible for providing financial assistance and a national training framework. It is their responsibility to establish a Planning and Implementation Management Support System.

IDP Implementation Cycle

IDP implementation generally occurs in a cycle, which is made up of four stages, as shown in the illustration.



During the planning stage performance indicators are formulated to monitor implementation and its impact. The outcome of monitoring sometimes results in the adjustment of the plan and implementation programme.

Completion of an IDP

Once the IDP has been completed, it has to be submitted to the municipal council for consideration and approval. The council must look at whether the IDP identifies the issues that affect the area and the extent to which the strategies and projects will contribute to addressing the problems. It must also make sure that the IDP complies with the legal requirements before it is approved. Before the approval of the IDP, the municipality must give an opportunity to the public to comment on the draft. Once the IDP is amended according to the input from the public, the council considers its approval.

Once a municipality has adopted its IDP it must submit a copy together with the “process plan” and the “framework for the IDP” to the MEC of the province for assessment. The MSA does not require the MEC to approve the IDP, only to assess that the IDP complies with the requirements of the Act and also that it is not in conflict with IDPs and strategies of other municipalities and organs of state.

Advantages of an IDP

- Every municipality should have an IDP.
- Through the IDP, the municipality is informed about the problems affecting its municipal area and, being guided by information on available resources, is able

to develop and implement appropriate strategies and projects to address the problems.

- It helps municipalities make **more effective use of scarce resources**. The municipality can focus on identified and prioritised local needs taking into consideration local resources.
- This enables them to **search for more effective solutions** by addressing causes, rather than just allocating capital expenditure for dealing with symptoms.
- The IDP helps to **speed up delivery** by providing a tool which guides where investment should occur.
- It encourages public participation and offers **decision-making mechanisms** that will arrive at realistic project proposals taking into consideration the limited resources.
- Where there is a clear municipal development plan, private investors and sector departments are **more willing to invest their money**.
- The IDP will strengthen democracy and institutional transformation through **transparency and inclusiveness**. It engages different socio-economic groups where people live and work.
- It facilitates the redistribution of resources in a consultative process.

CHAPTER 6

VIGILANCE IS THE PRICE OF PROSPERITY

- *Understanding the need for consistent and regular monitoring and evaluation*
- *Building knowledge of sound M and E techniques*
- *Deciding how to measure i.e. the complexities of measuring development*
- *Assigning responsibility for data collection and analysis*
- *Managing change processes in LED*

Understanding The Need For Consistent and Regular Monitoring and Evaluation

We have referred to reviewing the achievement of goals in earlier chapters of this toolkit. The process of reviewing outcomes is referred to as monitoring and evaluation in development-speak. The term monitoring refers to the on-going examination of whether implementation activities are occurring as planned. Evaluation asks more in depth questions about whether the outcomes of the activities which were implemented. It is useful to distinguish between inputs, resources, activities, outputs and outcomes at this stage:

INPUTS – are the technical and financial resources which are invested in making a change in a particular situation occur. E.g. if a municipality seeks to increase the number of businesses in its local economy, it could devise a plan in partnership with other local businesses. The plan may include publicising the raw materials available in the economy for processing, or support businesses to seek partners in clustering programmes. Alternatively developers may be assigned land for construction of suitable premises for the businesses being induced to move to the area. The costs of planning, advertising, conducting research and consultation are inputs or contributions into the process.

RESOURCES – refer to the land, the infrastructure and the costs of construction of local business premises.

OUTPUTS – would be the new buildings available. It is useful to remember that an output is not a guarantee of achieving the desired change.

OUTCOMES – are the measure of actual change which occurs. The occupancy rates of the new business premises or the jobs created as a result of the investment, the improved incomes in households where employment has occurred are all examples of outcomes that could result from the investment in the cluster or new business premises.

The example and terminology above shows the importance of understanding the risks involved in making plans and investments. It also illustrated that a plan may not come to fruition, i.e. businesses may not choose to relocate or invest in a local economy. However if a plan is well researched and suitable consultative processes have been conducted with businesses, the risks can be decreased.

Decisions about how LED programmes are to be monitored start at the planning stage, where stakeholders decide what outcomes they wish to achieve. Planning of programmes is therefore often concerned with assessing which activities will achieve the desired outcomes.

Once programme activities are planned each one should be accompanied by measures to assess whether the implementation is taking place and measures to assess whether the outcomes are achieved. As there can be considerable investment in LED programmes, monitoring and evaluation (M&E) is critical to ensure timely implementation and progress towards outcomes. This review process is essential in reflecting on returns on investment and to ask whether social and economic change is actually occurring. It is useful to establish the criteria and processes for M&E at the planning stage. The establishment of such M&E systems will be fruitful if three aspects are integrated:

- The system must be clearly understood as a learning tool, not as an instrument for controlling behaviour. M&E systems too often apply rigid criteria and ignore the open discussions around failures, thus undermining the learning culture they are designed to support.
- These systems must be systematically linked to the planning and management frameworks for future action. If not, they are rendered futile, as their findings will not influence the further steering of the process in a significant way. In South Africa, it is specifically important to link M&E systems for LED to the annual IDP planning and review cycles, where a high percentage of future resource are allocated. A way to establish these linkages is to connect the M&E system institutionally with the IDP planning cycle. The indicators of the M&E system for LED should be identical with those used for reviewing LED activities in the IDP, the reorientation or redesign of LED activities should be based on the reflection of the success and failures, and the planning of new activities should be based on the impact model that the LED process is based on and on the concrete lessons learnt.
- The documentation of the findings and their distribution among the range of stakeholders must be guaranteed and organised in a user-friendly way. If this doesn't happen, the learning process fails to be inclusive, and will not produce a broad local knowledge base that strengthens the competitiveness of the area.

Why Monitoring and Evaluation? ⁽²⁶⁾

- A well-designed monitoring and evaluation system will help answer the question 'how do I know when I have reached my Objectives?'
- It provides a basis for accountability in the use of resources.
- Used carefully at all stages of the project cycle, monitoring and evaluation can help to strengthen strategy and project design and implementation.

Source:

⁽²⁶⁾ *Primer on LED, World Bank, 2006*

- It helps to build trust with businesses, financial institutions and investors by openly sharing results.
- The emergence of recorded benefits early on helps reinforce ownership and early warning learning by all regarding emerging problems allows action to be taken before costs rise.
- A well-designed M&E system allows for mid-course corrections.
- A reliable flow of M&E information during implementation enables managers to keep track of progress and to adjust operations to take account of experience.
- It allows for the interventions to be adapted to reflect the changing needs of target businesses, sectors and companies.
- It provides important information on how to use limited resources more efficiently by directing investments to programmes and activities that have the greatest impact on productivity, job growth or investment.
- It allows for the benchmarking of LED interventions against examples of good practice.
- It demonstrates the impact of LED interventions in terms of poverty reduction, city GDP growth or employment creation to clients, citizens and potential investors.
- It can help to justify budget requests for further LED interventions.

Building knowledge of sound M&E techniques

While M&E starts at the planning stage, it is also a key component of the LED implementation plan. Indicators should be clearly laid out at the project level to measure inputs, outputs, outcomes and impact for each project. These will be combined to determine programme success and provide an overall assessment of an LED strategy. Regular semi-annual and annual meetings to discuss results are constructive elements of the ongoing planning and learning process.

It is useful to conduct a monitoring and evaluation strategic workshop at the start of a programme. It should establish an M&E timetable including scheduled reviews of content and process indicators.

Start thinking about M&E at the consultation stage of the LED programme

An independent audit of key indicators through repeated municipal and business surveys is crucial to measuring the progress made since the baseline local economy assessment. These can be quantitative and qualitative in nature. Qualitative assessment is sometimes omitted as quantitative assessment is considered more important. It is true that calculating the impact from a quantitative perspective is

essential; however in developing countries, where there are high levels of inequality, it is as important to gather qualitative data in assessment processes. Qualitative data provides more insight at the level of communities and can provide more information about why certain outcomes occur or not.

Monitoring is the continuous assessment of a strategy and/or project implementation in relation to agreed schedules, and of the use of inputs, infrastructure, and services

Plan for qualitative and quantitative information collection to obtain a broader picture of impact

by project beneficiaries. Monitoring provides managers and other stakeholders with continuous feedback on implementation. It identifies actual or potential successes and problems early to facilitate timely adjustments to project operation. Monitoring accepts the project design as given; it measures progress, is focused on performance and occurs continuously.

Evaluation is the periodic assessment of a project's relevance, performance, efficiency, and impact (both expected and unexpected) in relation to stated objectives. Project managers undertake interim evaluations during implementation as a first review of progress, a prognosis of a project's likely effects, and as a means of identifying necessary adjustments in project design. Evaluation challenges the design of a project, draws conclusions and makes judgments, is focused on the effectiveness of the programme or project and thus it becomes a key milestone in the project cycle. Evaluations can be divided into two categories. 'Process evaluations' focus on the implementation of programmes or projects, while 'outcome evaluations' focus on programme results.

Process evaluation is concerned with how a programme can be improved while outcome evaluation is concerned with whether the programme actually works. Managers of LED programmes would benefit from building both forms of evaluation into the programme design.

Process Evaluation and Outcome Evaluation

Process evaluations overlap with monitoring activities and both are concerned with project or programme implementation. Process evaluation involves the systematic examination of implementation quality on a periodic basis and programmes are monitored internally with monitoring reports generated at different levels on a weekly, monthly or quarterly basis. LED programmes may involve a mid-term process evaluation, which will include management reviews, resource expenditure studies or financial audits. A process evaluation may recommend changes in programme activities, target groups, the management structure or financing strategy.

Outcome evaluations are centrally concerned with determining what would have

happened to programme recipients and the LED task if the intervention had not occurred. Outcome evaluations primarily seek to measure the ‘value added’ of undertaking a particular LED project intervention.

Outcome evaluations ideally cover four key parameters. Primarily, evaluations must account for and enumerate outcomes. This can be achieved by assessing what has happened to the target population and how it is different from before. Enumerating outcomes will also involve outlining whether programme objectives were achieved and if unanticipated outcomes occurred. Secondly, outcome evaluations measure programme effectiveness. This is achieved by assessing the degree to which the intervention resulted in observed changes in the target population. Third, outcome evaluations must assess whether programme benefits outweigh programme costs by conducting a cost-benefit analysis. Lastly, a sound outcome evaluation will assess impact by determining whether there has been a marked improvement in the situation that the policy or programme was designed to address.

Cost benefit analysis weighs up the funds spent against the money saved or generated by the project.

Assessing the impact of an LED strategy also implies the need to separate the

For example, unemployment might decrease by 10 percent in a year after the implementation of an LED strategy; however, this figure could in part be a result of an increase in national GDP.

outcomes that are a direct consequence of the LED strategy from those that are a result of external free-players such as an improvement in the national economy.

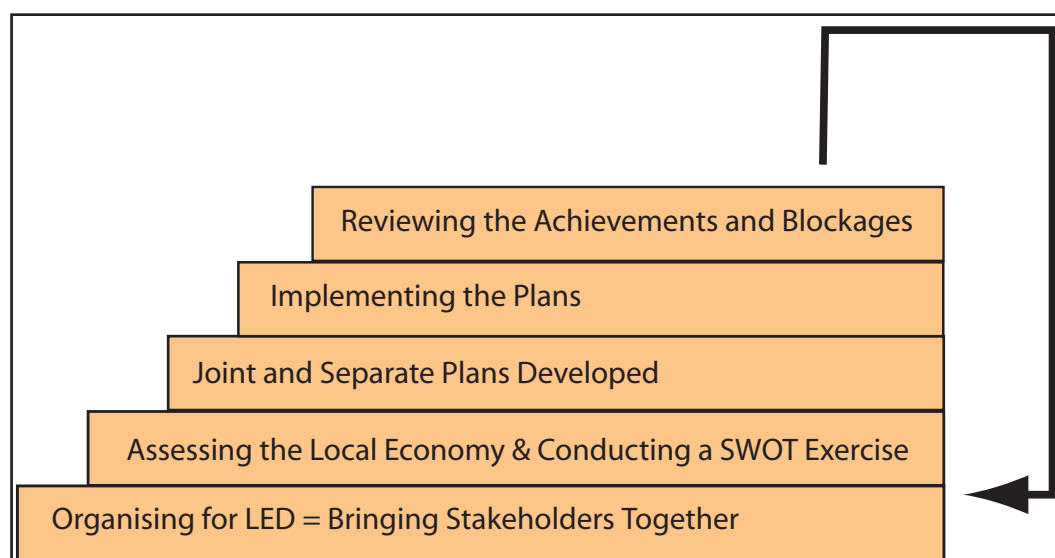
An approach to take in this case could be to compare the findings from the LED

strategy assessment with the same indicators selected randomly from different localities as well as from the regional and national averages. It is possible then to identify changes in these indicators that are common to all localities, and therefore not related to the specific LED strategy. As result, the outcome evaluation can isolate the external deviations from the direct impact of the LED strategy. This, however, is difficult in most countries as there is neither data nor funds available. Nevertheless, efforts should be taken to monitor and evaluate at a project and strategy level.

The general rule should be to develop the most rigorous evaluation methodology taking into account the significance of the investment as well as practical considerations related to resource availability and technical capacity.

Integrating M&E into LED Stages

In our illustration of the stages of LED, reviewing the achievements and blockages appears as the final stage, though in reality it needs to be planned and incorporated from the first stage. Here, we discuss how M&E is planned through each stage of LED processes.



M&E in Stage 1: Organising for LED ⁽²⁷⁾

During the organising stage, there are opportunities to begin thinking about the kind of monitoring and evaluation framework that will be necessary throughout the life of the project.

This includes:

- Working out of what kind of long-term institutional mechanisms are needed to ensure the M&E of the Strategy, e.g. a Strategy Monitoring Team with members from different sector committees; and
- Designing a monitoring and evaluation plan for report back mechanisms throughout the life of the Strategy Formulation. This can include an Annual Report, a Quarterly Progress Report, an Annual Meeting, regular press releases and bi-weekly meetings.

Consultation processes during the organising phase, allows for the M&E system to be participatory. This offers a host of benefits that build on the benefits of conventional M&E systems.

Source:

⁽²⁷⁾ *Local Economic Development: A Primer Developing and Implementing Local Economic Development Strategies and Action Plans, Gwen Swinburn, Soraya Goga & Fergus Murphy, World Bank 2006*

These include:

- Improved performance of development and poverty alleviation programmes;
- Improved local learning, management capacity and skills;
- Strengthened collaboration among key project stakeholders and greater ownership of projects;
- M&E systems that are more sustainable since they are more relevant to local capabilities, skills and resources;
- Increased cost-effectiveness of participatory monitoring and evaluation (PME) systems as they use low-cost methods of data collection and analysis.

Conventional monitoring and evaluation focuses on approaches and systems that are determined by outside experts. Participatory monitoring and evaluation is based on negotiating the content of evaluation approaches and systems to meet the needs of the local people and other key users of M&E information such as donors, municipal government and national authorities.

In participatory monitoring and evaluation, the evaluator plays the role of a facilitator/trainer/coach guiding groups to reach consensus on key M&E issues and building their capacity to use M&E to improve programme performance. The two approaches are contrasted below:

	Conventional Evaluation	Participatory Evaluation
Why	Accountability. Usually summary judgments about the project to determine if funding continues	To empower local people to initiate, control and take corrective action
Who	External experts	Community members, project staff, facilitators
What	Predetermined indicators of success Principally cost and production output	People identify their own indicators of success
How	Focus on 'scientific objectivity'. Distancing of evaluators from other participants; uniform complex procedures; delayed, limited access to results	Self evaluation; simple methods adapted to local culture; open immediate sharing of results through local involvement in evaluation processes
When	Midterm and completion	Any assessment for programme improvement; merging of monitoring and evaluation, hence frequent small evaluations

M&E in Stage 2: Assessing the Local Economy

The Local Economy Assessment should be viewed as an opportunity to collect baseline data in the economy (description of the economy before the implementation of the LED strategy) so that the impact of the LED strategies can be monitored along its implementation.

M&E in Stage 3: Formulating Plans

The planning stage should include the determination of key performance indicators from which the progress toward objectives will be measured. The team should also formulate a plan, as part of the data collection methodology, to measure progress made on the key performance indicators. The formulation phase is also a good time to determine who is responsible for monitoring the strategy's implementation.

In the strategy implementation phase, the monitoring and evaluation team should consider and develop a monitoring and evaluation plan including:

- How they will collect data for monitoring the objective key performance indicators;
- How they will collect data for monitoring each project's progress; and,
- The kind of procedures and report back mechanisms to ensure continued accountability on progress to all stakeholders

M&E in Stage 4: Strategy Implementation

By this stage, the institutional arrangements for monitoring the implementation of the strategy should be in place.

M&E in Stage 5: Strategy Review

Strategy Review is the evaluation of the relevance of the strategy and its implementation.

M&E Through Stages of LED

LED Process	M&E Practice
Stage 1: Organising for LED	Decide on framework for M&E
Stage 2: Assessing the economy	Collect data to reflect state of economy
Stage 3: Formulating Plans	Identify indicators to reflect progress
	Select quantitative and qualitative
Stage 4: Implementing LED	Assess progress towards targets
Stage 5: Reviewing LED	Assess social and economic impact: measure against indicators selected
	Use a combination of participatory and scientific methods to evaluate impact

Indicators for LED M&E

There are six types of indicators that can be used to assess the impact of LED projects. These types of indicators are:

Input indicators

Inputs are the resources and capacity mobilised to make an LED goal happen. They refer to a range of resources, both material and personnel, which are allocated to LED projects and programmes. The input indicators measure the resources required for formulating LED strategies and delivering LED projects and programmes

Output indicators

Outputs are specific activities, processes and projects that directly result from the inputs. Through the mobilisation of resources and capacity (inputs) for LED these should result in an output such as a

While indicators are essential for reviewing progress, learning and improving impact, M&E task teams or committees should not get bogged down with deciding on complex sets of indicators. It may be optimal to select indicators which are easy to understand and track.

marketing campaign or the establishment of a Business Support Centre. Output indicators measure the direct results of the effort and resources put into LED.

Efficiency indicators

The relationship between inputs and outputs should be considered in assessing how efficiently an LED project was established. This relationship shows how efficiently a municipality or other stakeholders used their resources and capacity to develop a particular LED project. These can be compared to other municipalities to establish what resources other municipalities used to establish a project of a similar type, and assess their own efficiency against the benchmarks set by other municipalities.

Outcome indicators

Outcomes refer to the direct consequences or results that follow from an activity, project or process (outputs). Development outcomes are the change in conditions that result from LED projects and measure the direct results of LED projects, processes and activities in the short-term.

Impact indicators

Impacts reflect the implications of an LED project for society as a whole. Impact indicators measure the longer-term implications of LED projects, processes and activities for broader society, such as an improvement in the quality of life of a community over a long-term period.

Effectiveness indicators

These measure the relationship between inputs and outcomes. This relationship will show how the resources allocated to the project resulted in the changes in the development of the local area and economy. The key question facing LED practitioners is whether there are more effective ways of supporting the establishment of new businesses. For example, were the inputs invested in the project the most appropriate ways to establish new businesses (outcomes) or are more appropriate LED instruments available to achieve the desired outcome?

Deciding How to Measure: The Complexities of Measuring Development

Measuring inputs and outputs are easier to verify than outcomes and impacts. One can quantify the resources (inputs) that went into an LED project and determine the outputs by quantifying the projects, which resulted from these inputs.

It is more difficult to quantify outcomes and impacts, as they are more value laden and subject to interpretation. It is sometimes difficult to say whether outcomes are the direct results of LED projects or of other reasons. Impacts can only be determined over a long period of time and this makes it difficult to determine whether the impacts are a result of LED projects or other role-players.

The first challenge facing LED practitioners responsible for monitoring LED projects and programmes is to isolate those outcomes and impacts, which can be directly linked to an LED project or output.

Municipalities should start by measuring input, output and outcome indicators before measuring the results of their LED projects and programmes. It is recommended that only after municipalities have developed and tested systems for measuring these indicators can they at a later stage then introduce impact indicators.

Using a framework to measure indicators

The “inputs, outputs, outcomes and impact” framework lay the basis for measuring the results of LED programmes. The framework must be used from the outset of the programme to ensure that there is agreement on the indicators to be used against which the final results of the project will be measured.

In the first stage of the planning process, the municipality develops a vision for the local area, a set of developmental objectives and a set of strategies to realise those objectives. For example, if the municipality has chosen the promotion of SMMEs as its LED strategy, it can begin to design an LED programme to promote SMMEs. As part of the planning process, the municipality must decide which outputs are required or which instruments are to be used to promote SMMEs. If the municipality decides that the establishment of a Business Advice Centre is the best instrument to promote SMMEs, they must then work out what inputs are required. These inputs may include municipal resources and additional resources to be mobilised through fund-raising or partnerships with the community and business sectors.

The municipality must then set clear objectives for the Business Advice Centre, which will inform the development of outcome indicators. If one of the objectives is to establish new businesses in the Information and Technology (IT) sector it will

be important to measure how many new IT businesses are established through the Business Advice Centre.

The objectives of the Business Advice Centre will also inform the development of impact indicators. For example, the municipality aims to promote redistribution of resources by creating opportunities for small companies to become established IT businesses.

In summary, the municipality using the “inputs, outputs, outcomes and impact” framework has now determined:

- **Which** strategy to follow (**SMME development**) to realise objectives (develop **IT industry**)
- **Which** instrument or project (**output, a Business Advice Centre**) it will use to implement the strategy
- **Which** resources (**inputs – funds and materials and personnel capacity**) are required to establish a Business Advice Centre
- **What** the objectives of the initiative are (**outcomes –new IT businesses established**)
- **How** the results (**outcomes – number of clients, types of clients per sectors, number of new businesses established, sectors in which businesses established, turnover of businesses established, number of jobs created by new business and NGO capacity**) of the LED initiative can be measured
- **What** the desirable long-term impact of the LED project is (**impact – redistribution**)

The framework also helps the municipality to assess how efficiently the LED strategy has been implemented by looking at the relationship between the inputs (funds and material and personnel capacity) and outputs (the establishment of a Business Advice Centre).

Effectiveness can be measured by looking at the relationship between inputs and outcomes. Expected outcomes through the establishment of new IT businesses could include:

- Short and long term job creation,
- Training and human resource development,
- Inter and intra-sectoral linkages,
- Urban renewal,
- Rural development,
- Women’s development,

- Co-operative governance,
- Developmental local government

Check-list of important questions

The framework is most often used in combination with the ‘Practical Deliberation Evaluation’ approach, which provides a “check-list” of important questions that municipalities should take into consideration when evaluating LED projects. These questions can refine the process of measuring the results of the LED project. Municipalities can involve a wide range of local stakeholders in an evaluation workshop where these questions are discussed. This type of workshop creates a forum for community groups to make inputs and comments into the evaluation process, and brings a wider perspective to bear on the evaluation of the results of LED projects.

The first set of questions is aimed at determining whether the LED instrument, project, tool or activity is appropriate. This is known as “**instrument verification**”. The following are instrument verification questions:

- Does the instrument, tool or project create jobs?
- Does it have spin-off effects to other firms, such as indirect benefits?
- Is the LED initiative the most efficient way of achieving the desired results?

The second set of questions is aimed at determining whether the outcomes of the LED project are appropriate to the local context. This is known as “**outcome validation**”. The following are “outcome validation” questions:

- Has the project resulted in the increased number of jobs?
- Are outcomes addressing the key social and economic problems in the locality?
- Do outcomes deal with the constraints of the sluggish economy?
- Are there different outcomes for the different parts of the local community?
- Do local disadvantaged groups benefit from the project?

The third set of questions is aimed at assessing the long-term social and developmental impact of the LED project. This is known as the “**social impact**”. The following are “social impact” questions:

- Do the outcomes of the project contribute to the development of society as a whole?
- Do the outcomes reduce inequality in opportunity or income?
- Is there increased participation by marginalised groups within the community as a result of the project?
- Are local choices for the local residents increased?

- Are there any negative societal consequences, such as crime and pollution?

Measuring results

The Department of Provincial and Local Government is in the process of developing a common set of indicators and a framework that can be used across the country. Until these are released, municipalities are free to develop their own M&E systems. Such innovation could contribute to national thinking in the M&E field.

Over the next few years it is likely that South African municipalities will experiment with a range of approaches to measure LED results. It is recommended that municipalities network with one another and pool their knowledge and experience as the monitoring of LED projects in South Africa becomes more refined.

Assigning responsibility for data collection and analysis

Typically, an LED strategy would include a range of stakeholders. The possible groupings which could be included are tabulated below: ⁽²⁸⁾

Public sector	Private Sector	Community sector
Local government	Chambers of Commerce	Individuals
State government	Board of Trade	Ward committees
Health Authority	Business Associations	Church groups
Transportation Authority	Large Corporations	Youth groups
Institutions of Higher Learning	SME representatives	Environmental groups
Education Board/Authority	Private developers	Voluntary service groups
Utilities	News media	Historic societies
	Professional associations	Cultural and arts groups
	Higher learning establishments	Educational groups
	Utilities	Groups representing minorities
City /area improvement groups etc.		

As discussed in Chapter 5, the range of projects and programmes, would include different groupings of stakeholders. We have also established that participatory monitoring should be considered and used where applicable. The involvement of stakeholders is therefore to ensure on-going participation as well as ensuring that the needs of stakeholders are being met through LED programmes. The example in the table below provides some ideas of the types of stakeholders that can be involved in different LED M&E events. The sample is not exhaustive and municipalities

Source:

⁽²⁸⁾ Local Economic Development, Wim Eisig, The World Bank Group, undated

and other coordinators of LED processes are encouraged to explore different ways of assigning roles for stakeholder groups in M&E. A further possibility is to get educational institutions to train and supervise students. In this way the funds spent on M&E are retained, students learn participatory and quantitative methods of M&E and they gain work experience.

Sample of Events to Measure Project Progress ⁽²⁹⁾

Events	Purpose	Products	Stakeholders
Annual planning	Define level of input, outputs, indicators, related activities	Annual work plan	Management
		Individual plans	Project staff
		Annual budget	Institutional stakeholders
		Gantt Chart	
		(Updated) Work	
		Agreements	
Mid-term evaluation	Respond to new opportunities	Progress report adjusted	Management
	Review leading indicators	Designs and implementation plans	Project staff
	Sustainability of assumptions		Donors
			Partners
Annual stakeholder meeting	Evaluate impact	Evaluation results progress	Management
	Progress review	Report on lessons learned	Project staff

While stakeholder involvement is encouraged, it must be remembered that some adherence to scientific methodology ensures accuracy. It will be important therefore that staff in municipalities, especially those involved in LED are trained in M&E methods of data collection and interpretation. They can be the leaders and managers in M&E and train other groups to support and participate in their efforts.

Source:

⁽²⁹⁾ *Local Economic Development: A Primer Developing and Implementing Local Economic Development Strategies and Action Plans*, Gwen Swinburn, Soraya Goga & Fergus Murphy, 2006

Managing Change Processes in LED

Change is at the heart of LED

At the beginning of this chapter, we identified learning as one of the reasons for building monitoring and evaluation practice into LED. As South Africans in a young democracy, we need to remember we are starting to accumulate experience in many forms of development practice. Like any other groups with little experience, we are bound to make inappropriate decisions or to expect change to happen faster than it does. In view of this, we need to build in mechanisms which allows for learning to take place and to correct processes towards achieving the goals we choose.

At the first stage in LED, we have stressed how important it is to bring as many stakeholders on board as is possible, given the realities of South African society. Some groups may be resistant or not have the confidence to participate freely. Some groups may not fully understand the reasons for and processes involved in joint assessment and planning. As capacity building is integral to meaningful LED, use the opportunity to build knowledge and confidence. Taking time to be inclusive is worth the effort, as exclusion could come at the cost of sacrificing goal achievement. Investing time and effort at the organising stage is valuable for building relationships and breaking down the barriers of the past.

When we get to the review stage of LED, some of the key questions we will be asking are:

- What is happening? What are the intended and unintended impacts – positive or negative?
- To whom is it happening? What differences are there among target groups and unintended clients, especially the poorest?
- Why is it happening? Is the programme the cause or other stakeholders?
- What can or should be done about it? How can we increase the positive and avoid the negative?
- How can accountability of recommended changes be assured? – How will it be monitored and by whom?

Considering these questions suggests that there are possible consequences which we did not anticipate at the planning stage. The stronger the relationships and the capacity building

Creating a learning culture and learning mechanisms are integral to LED processes

at the organising stage, the more skill and honesty we will be able to apply at the review or M&E stage.

Some valuable lessons in LED processes which have emerged from GTZ's LED programmes in South Africa are worth noting at this stage:

LED facilitation has to support the institutionalisation of the LED process in a way that allows local role-players to reach these benefits without undermining the basic principles of LED: participation, process orientation, incremental approaches and the focus on locally available resources and realistic local solutions.

In order to do so, we have identified 3 key areas for LED facilitation to support the institutionalisation of the LED process:

The design and development of adequate structures to generally manage LED processes, the creation of a learning culture and learning mechanisms that integrates the constant improvement of the process, and the development and implementation of a strategic orientation for the diverse activities within the overall process.

First, a certain clarification of the overall process management at an early stage can be crucial to unlock blocked dynamics and to prevent power struggles, and can become an important element of capacity building for local role-players especially in areas where LED management institutions already exist. Second, learning is overproportionally created in the early stages of the process, and should thus be captured and fed back from the very start. Sharing the generated knowledge also contributes to building of social capital and the capacitation of local stakeholders and is thus closely interlinked. Finally, providing strategic orientation on the process facilitates cooperative governance and provides important guidance to improving the locational quality of the area.

Build Adequate Management Structures for LED Processes

A multi-stakeholder LED process yields both opportunities and challenges: On the one hand, the diversity of its role-players and initiatives allows for a wide variety of ideas and initiatives and a flexible and quick implementation of activities, each of which adds specific value to the area's competitiveness. On the other hand, the spontaneous character of the approach runs the risk of producing a range of unconnected and sometimes even contradicting initiatives, where possible synergies are not utilised sufficiently, and where momentum fades due to the lack of longer-term orientation.

In order to maintain the positive dynamic of an LED process over time, effective

management mechanisms and structures are required. Following the systemic logic of the LED approach, this structure cannot be set up comprehensively and ad hoc at the beginning, but must grow out of the process and the local systems. The task of LED management is to cope with the increasing complexity of successful LED processes in a way that creates ongoing and long-term opportunities for the local system and its different role-players to participate in and benefit from a vibrant local economy. Although there might be different institutional models for building an efficient and effective management structure for the local LED process over time, the fundamental rule to be kept in mind is that all actor groups buy-in and feel adequately represented.

Accordingly, the challenge for identifying appropriate institutional arrangements to manage LED processes is to create an institutional framework for equal partnership, flexible co-operation mechanisms and unrestricted private initiative.

All groups should buy-in and feel adequately represented

Effective LED management must be able to fulfil the following core functions:

- Coordinate and harmonize the different initiatives
- Promote concerted efforts
- Enable joint decision making on the basis of joint consultation
- Facilitate the development of a longer-term perspective
- Guarantee sustainability to the process, including the financial sustainability of the different support mechanisms.

There is no simple answer to what institutional set-up is best for fulfilling these functions. The best institutional structure is the one which optimally reflects the local context and the specific requirements of the process at a given time. Different management principles have a specific importance at different steps of the process. The inclusion of stakeholder groups which is as broad as possible is of vital importance at the beginning of a process especially where there are fragmented patterns. In a more dynamic LED process and with the existence of a certain level of social capital, the frequent communication and cooperation around the management of the process might be concentrated in a more specialised management body, with regular feed back loops to and from the wider LED community, in order to increase the professionalism of LED management.

Regardless the specific phase or context of an LED process, the following list reflects the general features that characterize a successful management structure of a multi-stakeholder LED process:

- The management structure reflects the multi-stakeholder character of LED and builds on a high level of commitment and buy-in from all stakeholders groups
- The management structure is embedded in extensive local, regional, national (and international) networks
- The LED management staff is highly professional and accepted by the LED community
- Effective LED process management tools are developed and introduced
- Existing LED planning and management tools and institutions (such as IDPs or LED forums and committees) are included and combined in the LED management structure
- Mechanisms are in place to swiftly and effectively solve potential conflicts between different stakeholders.

What are promising strategies and processes?

In line with the principle of “form follows function”, the task of setting up inclusive management mechanisms for an LED process is not to just create another organisation. Many times, the establishment of new organisations undermines the dynamism and spontaneity of LED processes and fails due to the lack of the social capital that is necessary to fill such a structure with life. LED facilitation should therefore abstain from imposing complex management structures without the necessary prerequisites in place, and without taking into account existing structures. Nevertheless, LED interventions should envisage the establishment of a multi-stakeholder management system from the very beginning. This involves the frequent interaction of the core facilitator with all different stakeholder groups – as opposed to a consultant who only interacts with Local Government as they finance his/her intervention. In the longer run, the task of LED facilitation is to bring the different LED vehicles together and to combine their roles and tasks in a way that best utilises the local capacities.

Strategies to develop such LED management mechanisms and structures must combine a number of processes:

Identification and Mobilisation of Key Champions

Local champions are persons or institutions who take the lead on certain issues and are acknowledged by a wide range of role players in fulfilling this role. Often they are officially mandated, but their motivation can also be a result of personal dedication and identification with the issues targeted. In many cases, the mandate or personal motivation does not cover the whole LED process, but specific issues or functions within it. LED facilitation can help to identify, clarify, align and combine these functions. Visualising and sharing the functions, mandates and motivations is an

important step both for improving the existing process management and for preparing the ground for more complex and holistic management structures. This can best be achieved via structured discussions, where all relevant champions exchange and discuss their views on how the process management can be continuously improved and what structural arrangements and institutional cooperation mechanisms should be developed for the longer-term management. Institutional mapping exercises can be a useful tool for the task, and often the best and most motivated champions have already shown during the process.

Selecting Options for Management Structure/s

In line with the results of this clarification and discussion process, LED facilitation can develop a number of options for formal institutional arrangements and specific management mechanisms. As mentioned above, there isn't one ideal pattern to follow. Also, this structure does not have to be comprehensive and holistic: Facilitating partnerships between institutions on certain issues and clarifying roles of existing and functioning institutions should always have priority before designing comprehensive institutional models that require major restructuring. In general, the main facilitation task in this context is to help finding adequate answers of how to balance permanent versus temporary institutional structures and issue-focussed versus holistic arrangements, and to assess costs and benefits of institutional measures of restructuring.

In order to achieve this balance, three types of institutional arrangements – and their combination - can be generally considered, and the existing LED management structure should mirror and systematise these accordingly:

- Platforms, forums or arena for consultation, negotiation and joint decision-making
- Professional management units (agencies, offices, secretariats) for providing information, concepts, documentation's to the management
- Issue-focussed temporary task teams for coordinated implementation of action programmes.

These institutional structures differ in their purpose and thus in the role they can play in LED management. Platforms aim at reaching agreement between as many relevant role players as possible on crucial issues, necessary action and related responsibilities. They are set up to promote better mutual understanding of role players and help to strengthen a common regional identity ('social capital' formation). Professional management units identify appropriate problem solutions, related strategies and opportunities on the basis of proper regional analysis, professional inputs and international experience. They ensure that the LED process

is steered and managed in an effective and transparent manner. Finally, task teams are in charge of the smooth coordination of programme implementation between private and public role players.

Allowing for such a threefold structure not only guarantees management flexibility, but builds extensively on existing institutions such as project teams, LED forums or committees and parastatal support institutions.

Capacity Building for Management Bodies

Each of these bodies needs a clear definition of its purpose, tasks, members and chairs, accountability and reporting structure, communication strategy. Organisational development (OD) interventions are necessary (including performance frameworks for staff). Building personal capacity via management training, study tours, horizontal exchange with similar bodies etc. can support these organisational development processes.

Providing useful tools and approaches for specific tasks:

Ensure and streamline communication flows.

An important element of professional LED management is a successful knowledge management and communication strategy. Many LED initiatives have faded due to the failure of the core management to feed back and market outcomes of the process and to report important decisions to LED role-players and the wider public audience. Promising strategies to keep the wider stakeholder range “in the loop” are:

- Ensure regular LED process coverage in public local media. The LED co-ordination unit has to ensure that necessary information about LED initiatives, relevant events, success stories etc. is compiled and disseminated to the media.
- Compile focussed periodic newsletters (e.g. on economic trends, on public spending, on science, research & education, legal and statutory information etc.) for LED stakeholders and specialists. In order to increase the relevance and attractiveness of this information, it is important to transport this information in a user-friendly manner and with a clear local area focus.
- Organise public workshops or topic days on issues which are subject to public and LED related decision-making processes.
- Ensure that there is documentation of reports on LED-related initiatives and action programmes.

Develop mechanisms for conflict mediation.

Conflicts are part of multi-stakeholder processes, as LED is about decision-making and action between partially competing, diverse and (in South Africa) historically

separated sectors of society. Conflicts are especially likely if decisions have to be taken about limited opportunities and limited resources. If unmanaged,

All stakeholders share common wider interests

these conflicts can disrupt the LED process. Negotiating the different interests and mediating these conflicts is an important task of the overall LED management. The basis for managing these conflicts is the understanding of all stakeholders that they share wider common interests, and that additional opportunities and resources exist which can only be tapped and exploited by co-operation.

Successful conflict mediation is based on the creation of social capital via identifying common interests by creative visions and a common regional identity, identifying “win-win-options” related to combined efforts and the clustering of competitive activities, out of which the mutual understanding is developed that is necessary for acceptable and sound compromises. Nevertheless, conflicts may emerge which cannot be resolved without applying the tools and skills of professional mediators. These can sometimes be found within the community on a volunteer basis or have to be hired from consulting firms.

Carry out professional analysis.

Local level analysis is an important ingredient for long-term strategy building and planning. Structured analysis with regard to trends, potential, threats etc. is specifically important when looking at the bigger picture and should be more than just a summary or aggregation of local-level analysis. Local analysis rather should be seen as a focussed analysis of issues which are common to all or most locations in an area or city and issues which are interrelated between different locations (e.g. rural-urban linkages). Thus, regional issues for regional analysis and regional planning are usually cross-boundary issues which reach out across several municipal boundaries.

Typical topics where a regional focus and structured regional analysis is of high importance are

- Higher-level and more specialised facilities and services (e.g. higher education) which cannot be offered on local level,
- Regional transport infrastructure,
- Management of wider-scale environmental systems (coastal areas, mountain areas, water catchment areas, game reserves, etc.).

In places where regional planning and management instruments are used by public

sector (e.g. the district IDPs in South Africa), the result of these analyses should be made integral part of the preparation and use of these. ⁽³⁰⁾

In order to build processes that will lead to increased impact, LED processes should consider:

- How vital it is to be inclusive
- Have sound and competent structures
- Communicate openly and regularly
- Undertake thorough and professional analyses of the local economy

Some principles of impact assessment should be incorporated through all stages of LED process:

- Impact assessment should be integral from inception to audit
- Focus on socially sustainable development
- Build social and human capital in local community
- Strengthen democratic and inclusive processes
- Focus on intended consequences and ways to turn these around
- Consider alternatives to planned interventions
- Consider potential improvement measures when there are negative or unintended consequences
- Local knowledge, experience, and cultural values should be incorporated into the impact assessment along with scientific methods

Source:

⁽³⁰⁾ *Local and Regional Economic Development: Towards A Common Framework for GTZ's LED Interventions in South Africa*, Anja Rücker, Gabriele Trah, 2006, unpublished

Key Questions on M&E

The first set of questions is aimed at determining whether the LED instrument, project, tool or activity is appropriate. This is known as “**instrument verification**”.

The following are instrument verification questions:

- Does the instrument, tool or project create jobs?
- Does it have spin-off effects to other firms, such as indirect benefits?
- Is the LED initiative the most efficient way of achieving the desired results?

The second set of questions is aimed at determining whether the outcomes of the LED project are appropriate to the local context. This is known as “**outcome validation**”. The following are “outcome validation” questions:

- Has the project resulted in the increased number of jobs?
- Are outcomes addressing the key social and economic problems in the locality?
- Do outcomes deal with the constraints of the sluggish economy?
- Are there different outcomes for the different parts of the local community?
- Do local disadvantaged groups benefit from the project?

The third set of questions is aimed at assessing the long-term social and developmental impact of the LED project. This is known as the “**social impact**”. The following are “social impact” questions:

- Do the outcomes of the project contribute to the development of society as a whole?
- Do the outcomes reduce inequality in opportunity or income?
- Is there increased participation by marginalised groups within the community as a result of the project?
- Are local choices for the local residents increased?
- Are there any negative societal consequences, such as crime and pollution?

CHAPTER 7

FUNDING THE LED PROCESS

Financial mechanisms for different types of local economic development projects

We start this chapter by reflecting on the ideas which can be generated on needs and priorities for building the local economy in which you live.

The table below summarises the possible areas in which development programs would take place. The column on the right lists the types of financial mechanisms, services or institution which could be used to finance the programs.

Projects and Programmes	Financial Instrument / Institution
Basic Infrastructure	Internal municipal sources, MIG, DBSA
Bulk Infrastructure	Bulk contributions, DBSA
Industrial Sector Development	Critical Infrastructure Fund, (DTI),
Building Competitive Advantage	Customised Sector Incentives (DTI), IDC
Transport and commercial infrastructure	Public-Private
Social and Cultural Infrastructure	Municipal Internal Finance, MIG
Financial Services for Large and Medium Enterprises	Investment and Retail Banks, Private Equity, Stock Exchange
Industrial Innovation	Venture Capital
Import and Export Promotion	DTI (TISA), PDCs
Financial Services for the Unbanked	Wholesalers
Housing Finance	MFIs
Micro and small enterprise finance	Savings and Credit Coops Village Banks
MIG	= Municipal Infrastructure Grant
DBSA	= Development Bank of South Africa
DTI	= Department of Trade and Industry
IDC	= Industrial Development Corporation
TISA	= Trade and Investment South Africa
PDCs	= Provincial Development Corporations
MFIs	= Microfinance Institutions

Municipal Infrastructure Grant (MIG)

The MIG is administered by the Department of Provincial and Local Government. It is a grant which is intended to increase provision of and improvements to infrastructure for poor households. It is to supplement the funds available to municipalities. The MIG can be used for a wide range of infrastructure needs including bulk infrastructure for community needs, sports and recreational facilities, as well as water and electrification.

As the MIG is intended to supplement municipal funds, reporting will take place as part of the overall capital budget of municipalities.

Critical Infrastructure Fund (CIF)

The CIF is a cash incentive to encourage the development of critical infrastructure towards building the economy. The types of projects applying should thus build industrial competitiveness, create jobs, support strategically important economic

activities, and extend the geographic spread of economic activities.

The Department of Trade and Industry will fund up to 30% of such special infrastructure. The qualifying projects could include transport systems, electricity, water and sanitation, power supply and telecommunications.

Development Bank of Southern Africa (DBSA)

Having started as an infrastructural support bank, the DBSA now finances and sponsors programs and projects formulated to address the social, economic and environmental needs of the people of southern Africa in improving their quality of life. The Bank adheres to the principles of sustainable development.

A recent transformation at the Bank saw the institution moving away from being solely focused on development finance and becoming a key national development institution having a threefold role as financier, advisor and partner. The DBSA is one of five development finance institutions in South Africa. The others include the Land Bank, National Housing Finance Corporation, Khula Enterprise Finance and the South African Microfinance Apex Fund.

Strategic Industrial Projects (SIP)

The key objective of the SIP program is to attract industrial investments (local and foreign) to South Africa that serve to upgrade industry and create employment. Qualifying sectors include manufacturing, information technology and research and development in engineering and the natural sciences. SIP provides tax allowances over a four year period. There is a detailed point scoring system for qualifying criteria.

Export Marketing and Investment Assistance Scheme (EMIA)

The objective of the EMIA is to compensate exporters for part of the cost of developing export markets. This would be available for developing export markets as well as to recruit new foreign direct investment into South Africa.

Productive Asset Allowance

This rebate is designed to provide incentives to use locally built vehicle platforms.

Small Business Development

The website of the Department of Trade and Industry lists 21 different support programs for small businesses. These include the overarching training, loan programs and loan guarantees. In addition, there are a wide range of sector specific programs for agro-industries, textiles, manufacturing and tourism.

The Enterprise Organisation (TEO)

TEO administers a wide range of different incentive programs to promote enterprise development of all sizes:

The **Small and Medium Enterprise Development Programme (SMEDP)** invests up to R3 m per annum in businesses that will generate wealth, create employment and develop entrepreneurs.

The **Foreign Investment Grant** provides support to international companies investing in new machinery to establish projects in South Africa. The Grant from the DTI can be provided in the ratio of 1:5 in favour of the investor.

The **Competitiveness Fund** provides incentives for innovation and technology, as well as improving market access through financial support and qualifying business services for manufacturing enterprises.

The **Sector Partnership Fund** is designed to increase competitiveness. The DTI will provide 65% and with the partnerships 35% support can be used for preparation and execution of marketing and production-related projects.

The **Skills Support Programme** will give proportional grants to recipients of the SMEDP incentives to be used for preparing the work force. The DTI will provide up to 50% of the training costs and 30% of the wage bill.

The **BBSDP** aims to support black owned businesses which have won tenders and need training and mentorship to support them in the tender performance.

Large Budget Film and Television Production Rebate Scheme will provide tax rebates and rebates in production expenditure for qualifying productions. There are seven eligibility rules which must be satisfied to qualify for these.

Sources

<http://www.dplg.gov.za/>

<http://www.dti.gov.za/>

Further details of the above programs are also available from the websites listed and contact details for the departments are provided below

Contact Details

Department of Trade and Industry

Website: www.thedti.gov.za

E-mail: contactus@thedti.gov.za

Mail: Private Bag X84, PRETORIA, 0001

Street: The dti Campus, Block A, 3rd Floor, 77 cnr Meintjies and Esselen Streets, Sunnyside, PRETORIA

Tel: (012) 394 3075

Fax: (012) 394 0323

Department of Public Enterprises

Website: www.dpe.gov.za

E-mail: info@dpe.gov.za

Mail: Private Bag X15, HATFIELD, 0028

Street: Infotech Building Suite 401, 1090 Arcadia Street, Hatfield, PRETORIA

Tel: (012) 431 1000

Fax: (012) 342 1039

Department of Social Development

Website: www.socdev.gov.za

E-mail: michaelf@socdev.gov.za

Mail: Private Bag X901, PRETORIA, 0001

Street: HSRC Building, North wing, 134 Pretorius Street, PRETORIA

Tel: (012) 312 7500

Fax: (012) 312 7943

Department for Provincial and Local Government

Website: www.dpplg.gov.za

E-mail: enquiry@dpplg.gov.za

Mail: Private Bag X804, PRETORIA, 0001

Street: cnr Hamilton and Proes Streets, Arcadia, PRETORIA

Tel: (012) 334 0600

Fax: (012) 334 0603

Industrial Development Corporation

Chairperson: Ms Wendy Luhabe

CEO: Mr GM Qhena

Enabling Act: Industrial Development Act, 1940 (Act 22 of 1940)

Call centre: 0860 693 888

Telephone: +27(0) 11 269-3000

Fax: +27(0) 11 269-3116

Email: callcentre@idc.co.za

Postal address: PO Box 784055, Sandton, 2146

Website: www.idc.co.za

Khula Enterprise Finance

Chairperson: Mrs NT Mapetla

MD: Mr XG Sithole

Enabling Act: National Small Business Act, 1996. (Act 102 of 1996)

Tel: +27 (12) 394 5560/5900

Fax: +27 (12) 394 6560

Email: helpline@khula.org.za

Postal address: PO Box 28423, Sunnyside, 0132

Website: www.khula.org.za

National Empowerment Fund

Chairperson: Mr Ronnie Mtuli

CEO: Ms Philisiwe Buthelezi

Enabling Act: National Empowerment Fund Act No. 105 of 1998

Tel: +27 (11) 305 8000

Fax: +27 (11) 305 8001

Email for general enquiries: info@necorp.co.za

Email for funding enquiries: info2@necorp.co.za

Postal address: PO Box 31, Melrose Arch, Melrose North, 2076

Website: www.necorp.co.za

SEDA Small Enterprise Development Agency

CEO: Mrs Wawa Damane

Chairperson: Bheki Sibiyi

Tel: 0860 103 703

Email: tbolani@seda.org.za

Address: P O Box 56714, Arcadia, 0007

Website: www.seda.org.za

SAMAF – South African Microfinance Apex Fund

Project Manager: Ntombi Msimang

Tel: +27 (12) 394 5955 (Project Manager)

Tel: +27 (12) 394 1805

Fax: +27 (12) 394 6955

Email: ntombim@khula.org.za

Postal address: P.O. Box 28423, Sunnyside, 0132

Development Bank of Southern Africa

1258 Lever Road, Headway Hill, MIDRAND, South Africa.

Tel: 27 (0)11 313-3911

Fax: 27 (0)11 313-3086

P O Box 1234, Halfway House, Midrand, 1685, South Africa.

Glossary of LED Terms

Appraisal: This is the examination of the project to identify its strengths and acceptability in terms the objectives and criteria set. This is one of the stages followed when a donor or department is assessing whether to provide funds for a project or programme. It checks whether the project is feasible on the ground, that the objectives set are appropriate and that costs are reasonable.

Brownfields: is a general term used for sites that have been developed in the past that may or may not be contaminated. Sustainable economic development strategies encourage the beneficial reuse of these sites, even though this may be more expensive than building or developing (new, to date undeveloped) greenfield sites.

Business incubators: is an economic development tool primarily designed to help create and grow new business in a community, within a specific building or location. Business incubators help emerging businesses by providing various support services such as assistance with: developing business and marketing plans, building management skills, obtaining capital and access to more specialized services. They also provide flexible space to rent, shared equipment and administrative services in managed workspace.

Business retention strategies: are systematic efforts designed to keep local companies content at their present locations within the city area. Strategies include helping companies cope with changing economic conditions, addressing new markets and even assisting with internal company problems.

Business start-up support: includes the full range of services available to people starting in business for the first time. Initiatives include: training, business advisory support, business networking and mentoring and financial assistance (grants, loans, interest rate subsidies are traditional methods and a more innovative approach to financial support is to try and attract as much private sector investment rather than public sector).

Clusters: An industry cluster is a grouping of related industries and institutions in an area or region. The industries are inter-linked and connected in many different ways. Some industries in the cluster will be suppliers to others; some will be buyers from others; some will share labour or resources. The important thing about a cluster is that the industries within the cluster are economically linked, they both collaborate and compete and are, to some degree, dependant upon each other; and ideally, they take advantage of synergies.

Community Economic Development: CED is not divorced from LED. Often a particular community within an area will undertake specific projects to increase their competitiveness. The methodology is often the same as in LED.

Community: An identifiable grouping of persons sharing similar qualities/ characteristics in a defined area

Development: Sustainable and integrated social, economic, environmental, spatial, infrastructural, institutional, organisational and human resources upliftment of a community, aimed at: a) improving the quality of life of its members with specific reference to the poor and other disadvantaged sections of the community; and b) ensuring that development meets present needs without compromising future generations' ability to meet their own needs.

Developmental (local) government: (Local) government committed to working with residents and groups within the community to find sustainable ways to meet their social,

economic, and material needs, and improve the quality of their lives (The White Paper on Local Government).

Entrepreneurial training: are programs that provide guidance and instruction on business basics (such as accounting and marketing) so that businesses improve their chances of success.

Export development services: Export assistance programs can help businesses to diversify their customer base, expand operations and become more profitable. Export services include: assessing company capacity for exporting; market research; information services (on exporting, trade regulations, transportation, etc.); international lead generation and trade shows/exhibitions or promotional marketing trips.

Feasibility addresses whether the project objectives can really be achieved.

Feasibility study: It is very similar if not the same as an appraisal. The scale of the project would decide the extent, depth and size of the study. The process would question whether the proposed project is well-founded and if it is likely to meet the needs of its intended target / client group. The study should design the project in full operational detail. Taking account of all policy, technical, economic, financial, institutional, management, environmental, socio-cultural and gender related aspects. The study should provide investors/ donors/ departments with sufficient information to justify acceptance, rejection or modification.

Financial sustainability requires identification of and improved access to a range of sources of funding. This would include innovative fundraising plans, implementing cost-recovery and income generation activities and forging public and private partnerships to ensure long-term survival.

Foreign direct investment (FDI): FDI is investment that is attracted from abroad. It can mean either greenfield investment (i.e. investment in building new facilities on hitherto undeveloped sites) or portfolio investment (i.e. buying into an established business). Inward investment means nearly the same. However it could include investment from within your country as well as from abroad.

Forward strategy: are arrangements to continue the life of projects after initial project funding stops. Sometimes described as an exit or succession strategy. This should be established at the outset of all projects that are likely to need ongoing capital or revenue resources after the initial period of establishing the project.

Greenfields: refers to factories and offices being built on land that has hitherto not been developed. Also greenfield investments also imply that facilities are designed and built for investors, rather than the investor buying a facility already built.

Growth node: is a physical location where industry and/or commercial development is deliberately directed; done either to reduce growth pressures elsewhere in the city or to redistribute growth within a city.

Hard infrastructure: includes all the tangible physical assets that contribute to the economy of a city. For example, transport infrastructure (roads, railways, ports, airports), industrial and commercial buildings, water, waste disposal, energy, telecommunications etc. See also soft infrastructure below.

High road techniques: stress the need to make more efficient use of resources and invest in processes, technological innovation and employee skills. It views labor as an important commodity and skill enhancement as a crucial targeted investment. It entails the

mobilization and upgrading of local resources and the maximization of local strengths and advantages to balance relatively higher wage rates.

Indigenous businesses: refers to local businesses, usually those that have developed in the community. Increasingly, the term refers to all businesses in an area whether they are 'locally grown' or not.

Local Economic Development: An approach by which local people continuously work together, and with other stakeholders, to achieve sustainable local economic growth and development that brings improved quality of life to all.

Local: Refers to a geographically defined space that coincides with the spatial extent of local government (as defined by Municipal Demarcation)

Low road techniques: promote area competitiveness through lowering production costs, especially wage rates; this is not a sustainable approach.

Mobile manufacturing (or service sector) investment: is where manufacturing (or service) companies have a wide choice of location choices. Consequently they are in very strong negotiating positions when it comes to choosing where to locate their businesses.

Municipal area: This is the demarcated geographic space under the jurisdiction of a local government institution.

Municipality: The geo-political entity within government that is responsible for the management of a local area.

One-stop business service centres: are facilities where business persons can go to obtain advice and support to help them establish and expand their business. Sometimes these centers also issue licenses and permits needed by businesses to start-up, operate or expand. These centers improve the local business environment by reducing the number of separate agencies and offices a business may need to approach for advice or to apply for various licenses and permits. They save public and private time and improve efficiency as a result.

Organisational sustainability occurs when the structures are connected to sources of learning. In addition, regular evaluations of the internal structures and operations take place to ensure relevance, ownership and personnel effectiveness.

Programme sustainability occurs when stakeholders feel that the services they are receiving are of sufficient importance and value that they are willing to take responsibility and ownership for them. Thus communities may take responsibility for programme management from donors when they have realised the benefits to themselves.

Resource base sustainability occurs when an organisation understands the importance of and need for an alternative resource base, develops a diversification plan and successfully implements it. As needs grow in face of rising unemployment and increasing social problems the importance of financial and resource base sustainability is becoming a greater challenge in South Africa.

SMEs: is the acronym for 'small and medium sized enterprises'. There is no definitive delineation between a small and medium sized business. As a general reference, small is often from 5 to 20 employees, medium from 20 up to 200. Businesses with fewer than 5 employees are usually called micro-enterprises. This is a guide only.

Soft infrastructure: relates to the less tangible aspects of LED such as education and training provision, quality of life infrastructure such as park, leisure and library services, housing, business support, business networking and financing services etc.

Stakeholders: are the individuals and groups who have an interest in the issues in hand. They normally represent their own interests as stakeholders.

Supply chains: are the products and processes that are essential to the production of a good or service. For example, to produce frozen fish, the supply chain inputs will extend from fish catching, handling, processing, and freezing to packaging, storing and distribution. These are all elements of a supply chain. Holistic LED strategies will try and capture as much of the higher value end of the value chain in their area. In this case fish processing, packaging, storing and distribution will be adding value and therefore be seen at the higher end of the value chain

Sustainability refers to the long or medium term continuation of an organisation, project or programme. The question of sustainability should be viewed from four different viewpoints, namely: programme, organisational, financial and resource base sustainability.

Sustainable employment: Secure employment able to survive normal competitive pressures and the poverty of families in the area.

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