

# INVESTIGATING PRO-POOR LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA



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This policy briefing summarises the results of a study of Pro-Poor LED commissioned by the World Bank and implemented by Rhodes University, Khanya-aicdd, and the University of Witwatersrand. This included a number of case studies of pro-poor interventions, as well as a survey of some of the top 20 urban and regional centres in the country. Some key findings revealed that the definition and understanding of LED shows wide variation. LED is unevenly developed and operationalised across the South African urban system where major divides exist between the largest, well resourced and capacitated municipalities and the smaller urban centres. This is demonstrated by the variability of capacity, staffing and resourcing which severely limits impact. On the ground the results of LED interventions seem limited and the impacts are poorly understood and monitored. Although strong policy support exists for addressing issues of poverty, targets do not seem to be in place or reflected in budgets. In addition, although national government programmes are an important lever, the ability of municipalities to harness support of these programmes for LED is severely limited. The implications are significant – particularly at the municipal level – and require a shift in understanding of poverty as a multi-dimensional phenomenon requiring more than simply an income-based solution.



## Introduction



In order to promote economic development it is being increasingly recognised that attention needs to be paid to both micro-economic measures at the local level and macro-economic measures at the national level. Macro-economic approaches however are limited in their impact if intrinsic problems such as social and economic inequalities that divide a nation, unpredictable political relations and geographical and environmental conditions are ignored<sup>1</sup>, and the potential micro-interventions which can build on local strengths and opportunities. Hence the need to explore ways of promoting economic development both from a strategic (more top-down) approach as well as from a more local level (more bottom-up).

In South Africa, Local Economic Development (LED) is often taken to refer to social participation, income-generating activities, local political leadership, human capital investment, and redistributive wealth mechanisms that retain and expand local economic activities. In countries adversely affected by poverty, prioritising the needs of the poor must feature prominently in the design of LED interventions.

In terms of the approach taken in this study, LED is taken to include all activities which local governments and other stakeholders at local level engage in to enhance growth, incomes and livelihoods, specifically including that of poor people. However, a local economy may well also 'develop' as a result of a range of devolved governmental grants and private sector investments.

<sup>1</sup> Sachs J., 2005: *The End of Poverty*



## Introduction to the Pro-Poor LED Study



The World Bank and the World Bank-Netherlands Partnership Program (BNPP) commissioned a study into pro-poor LED in urban areas in South Africa, with a specific focus on seeking to ascertain lessons which can be derived from the application of LED, primarily by local governments, and to lay the basis for a monitoring and evaluation framework. The research included a literature review, a survey of the top urban and regional centres in the country, and a number of case studies. This Briefing presents the key findings and lessons from that research.

Partners in the project included Rhodes University, Khanya - African Institute for Community-Driven Development (Khanya-icdd), University of Witwatersrand, University of Kwazulu-Natal, and Mangaung Local Municipality, The SA Cities Network, South African Local Government Association (SALGA), National Treasury, Local Government and Water Sector Training Authority (LGSETA) served on a national reference group.



## Background to LED in South Africa



South Africa has the largest economy in Africa, but suffers from a **highly dualistic economy**, with a world class formal economy that includes an increasing number of multinational companies, sitting alongside a population where up to 40% are unemployed and dependant on welfare grants and the informal sector to survive. This duality is being characterised in South Africa as the formal (first) and informal (second) economy. The Deputy President has been given responsibility for measures to promote the second economy.

In addition to the laws and policies directly supporting and encouraging pro-poor LED other instruments provide support for implementation. These include the Integrated Development Planning (IDP) process which requires an economic and spatial development component, promotion of participation and appropriate institutional and funding mechanisms.

Based on international experience, dplg<sup>2</sup> recommends that local authorities consider implementing one or more of the following six strategies to promote LED:

- Industrial recruitment and place-marketing;
- Small, medium and micro enterprise (SMME) promotion and support;

- Community economic development;
- Export promotion;
- Business retention and expansion; and
- Investment Attraction designed to alleviate poverty, support small business and expand business development.

A range of **financing mechanisms** have been established to help promote LED including a LED Fund, Municipal Infrastructure Grant, Integrated Sustainable Rural Development Programme and the Urban Renewal Programme.

A sophisticated system has therefore evolved to provide a supportive base for pro-poor LED. Whilst the country lacks an embracing LED policy document and many of the above-mentioned interventions are not specifically named as 'pro-poor' strategies, what it does have in place is a wide range of laws, policies and funding mechanisms which have nevertheless created a **very defined framework for LED intervention and support**, although with insufficient impact on job creation and livelihoods.



## Emerging findings from the research



These results provide a snapshot of LED in 20 responding centres including metropolitan centres, secondary and smaller cities and regional centres.

### In terms of the municipal economy:

Although a diverse range of sectors were rated as the primary ones, the most common **dominant sectors** appear to be manufacturing, community services (i.e. government employment), business and financial services and tourism, indicating the dominance of primary and secondary industry and government employment as opposed to the tertiary and quaternary sectors. In terms of **employment**, the dominant sectors are manufacturing, community services, mining, agriculture and trade. In 5 out of 15 cases mining was rated as the sector experiencing the greatest **decline**, manufacturing in 5 cases and agriculture/forestry for 4.

### In terms of how economic development is organised:

**Perception of LED** - Economic development is perceived very differently by the various municipalities ranging from building 'a globally competitive region so that all communities can benefit from economic growth' (eThekweni) to more modest goals: 'poverty alleviation through job creation' (Moghaka/Kroonstad). The most common **institutional arrangement** is for municipalities to establish a dedicated LED Unit/Department with 12 centres having interdepartmental LED mechanisms. In all cases the municipalities have established **linkages** beyond the municipality as part of a process of working with a wider group of stakeholders in order to advance development within the municipality. Formalised partnerships commonly exist with business, educational authorities and a range of specialist bodies.

### In terms of their economic development focus:

**Common themes** included: job creation; skills development; making the city a world class city; sectoral development; investment attraction; inner city redevelopment; infrastructural development. Most local authorities (17) claim to have **poverty-focused strategies** as part of the foci of their LED units/Economic Development Departments including: provision of free/subsidized services in terms of an indigent policy (8 cases); social development (6); procurement policies (4); infrastructure provision (2); business development (2); job creation/training/public works (5); food packages/nutrition (2); housing policies (1); rural planning (1).

Of the 18 local authorities responding to this question, 12 see no **distinction between addressing poverty as distinct from promoting economic growth** while 6 do. This is an aspect which needs to be investigated in the case studies as economic growth per se is not sufficient to address poverty, notably where there is persistent and widespread inequality as is the case in South Africa.

Community **participation** in programmes would appear to be limited and contact seems to be at the level of information provision, discussion and seeking endorsement;

### LED interventions in Ingwe Municipality

The **Ingwe** Municipality in KwaZulu-Natal is a small, largely rural municipality centred on the town of Creighton. The municipality has prioritised addressing poverty in its IDP and identified an innovative range of mechanisms to achieve this – the most important being around tourism. The municipality is rated as one of the best performing in the country in terms of a national awards scheme. The tourism intervention has focused on reviving the local railway-line as a tourist attraction, driven by a partnership involving the municipality, mission, rail and tourism authorities and local interest groups. To date some 229 jobs have been created, mostly of a short-term nature, and a significant reorientation of the focus of the local economy is taking place. Some lessons include the importance of partnerships, effective marketing to draw in tourists and to market produce and the need for effective business research to establish the existence of a market.

Main **economic development strategies** include: skills development (10 cases); SMME support (8); Job creation (5); Tourism (5); Marketing (2); Economic development / manufacturing support (3); Infrastructure and planning (3); Sector support (2); Environmental management (2); Services (2).

There is a high degree of involvement with two **government programmes** with defined LED implications, namely the Urban Renewal Programme (9 cases) which targets support to poor areas within cities and the new Expanded Public Works Programme (EPWP) (5).

In relation to other key **stakeholders** involved in LED, the main involvement was business chambers (75% of cases). NGOs are active in LED in only four localities. Beyond this, there are 14 other institutions listed as being active in at least one locality. Examples include tertiary educational institutions, an SMME trust, Local Business Support Centres, provincial development agency, sector education and training authority (SETAs), Tourism Boards and a bank. Unfortunately budgetary constraints prevented interviews being undertaken with non-local government role-players and hence this assessment is solely based on the understanding of local municipal officials.

### In terms of specific LED intervention:

In all cases, a defined **Economic Development Strategy** has been adopted by the respective municipalities or is being developed, often as part of the Integrated Development Plan. In most cases (18) the local authorities claim that they were active in promoting the local **business environment**. Moves to privatise municipal services appear to be limited (7 cases), probably owing to strong union opposition. 12 municipalities claim to have grants/rebates to attract new investors, while only 11 localities assert that they had support in place for existing investors, with three saying that they were working on a support package. 18 municipalities provide infrastructure and involvement in industrial and commercial sites is common (17 respondents)

13 municipalities were working with other business organizations to **support SMMEs**. 17 municipalities claim to be active in preferential procurement for SMMEs and in 13 cases SMME support centres/business incubators have been established or are in the process of being built. Support for the **informal sector** is undertaken by 15 municipalities, predominantly skills development incentives and the provision of infrastructure.

Most municipalities (16) see themselves as providing defined support for business **sectors/clusters** while **support for the poorest** sections of the community is part of the economic interventions of 11 municipalities. Such intervention takes the form of skills training, local area support, housing support, advisory services, procurement and public works. 13 municipalities have **area-based support** and 14 centres undertake some research or **information** activities, e.g. a database of economic trends, sector information and relevant information.

11 municipalities provide support for **export and marketing**. Non-financial support for **inward investment** takes the form of information provision, lobbying of business, investment facilitation and technical support (13 municipalities).

### In terms of financing LED:

**Operational funding** for reporting LED units ranged from R100 000 (Umhlatuze) to R48.5 million (Cape Town) in 2003-04, with R100 000 and R51.8 million budgeted for 2004-5. Overall, there is clear gap in financing of the operations of LED units between the smaller centres (which are generally less than R600 000 pa) and the larger ones (over R6 million per annum). In terms of **capital funds** similar gaps were in evidence between larger and smaller centres. The range recorded was R75 000 in Thoyandou to R16 million in Ekurhuleni in 2003-04 and R49.2 million for Cape Town in 2004-05.



## Emerging findings from the research



Government policy shifts and the devolution of authority has clearly assigned municipalities a development mandate. Over and above this, a range of government support programmes, such as public works and urban renewal, do influence the nature and direction of LED in the country. Many local governments are struggling to assume this responsibility given the nature of the constraints they face. This is worsened by lack of clarity over the nature and focus of LED at national level. Delivery of programmes and projects is still very fragmented and patchy.

Some concerns emerge concerning current LED policy and practice in urban areas of South Africa, including:

- ▶ **LED is not yet well embedded** in municipal practice, as shown by the limited funds allocated, the absence of poverty reduction targets and the lack of detail of the impact of interventions. It is still early days for many municipalities, whose policy is still being developed and concrete results appear to be limited. In addition, the lack of monitoring and evaluation is a cause for concern;
- ▶ LED is **unevenly developed** and operationalised across the South African urban system. **Major divides exist** as a group between the largest, most well-resourced and capacitated municipalities and the smaller urban centres in terms of policy development, institutionalisation of LED and applied practice. This is even true for some of the larger secondary cities. However there are some exceptions to this general picture;
- ▶ LED is **defined and understood very differently**, which reflects the absence of national LED guidelines, and the short time with which municipalities have been actively taking forward LED approaches. This results in challenges in determining objectives and targets as well as differences between councils, which hinders the scope for comparison. There are differing views held between government departments as to whether LED should have a **pro-poor or a pro-market focus** and a legacy of support for unsustainable, low skilled community projects has negatively impacted on perceptions of the efficacy of LED. Even in the case of flagship projects such as developing flagship infrastructure, results clearly do not always live up to expectations;
- ▶ LED is sometimes **perceived as marginal** to the mainstream basic services delivery mandate of local government;
- ▶ There is considerable **variation in the amount of resources and staff devoted to LED**, the degree to which LED has moved beyond policy pronouncements and the results achieved;
- ▶ The **compartmentalization of economic development** and lack of coherence is a significant problem. There are pro-poor statements in the policies of many municipalities, but this is often not translated into significant LED budgets, nor the actions of other municipal departments. This impedes the overall scale and impact of council LED policies. In addition, there is an apparent failure to link line-function interventions or national government-funded projects explicitly into LED e.g. housing construction and infrastructure. The varying size of LED units, the presence or absence of professional staff and resource differences creates a very diverse profile in terms of what exists and also in terms of actual impact;
- ▶ Most municipalities are initiating some form of **partnerships**, even if many are weak. The reasons for establishing partnerships need to be more clearly articulated and the concept needs more explicit mention in IDPs. Although there are forums or some mechanisms for public-private interaction in most places, there seem to be relatively few cases of direct collaboration in joint projects. There is only **limited private sector involvement**. Certainly the reasons for establishing partnerships need to be more clearly articulated and the concept needs more explicit mention in IDPs;
- ▶ For community-based economic development to work, **participatory identification of strengths and opportunities** at a local level is required as well as fostering of community energy and commitment to take forward their own development. In practice top-down approaches seem much more common;
- ▶ The **devolution of significant and real power** to effect LED is impeded when local municipalities lack the skills and capacity to effect change. This applies to councillors and officials and is a major constraint which government itself has recognised as needing attention. Significant devolution has taken place without adequate funds to run LED offices, pay for training or to finance projects, creating what is locally known as an **'unfunded mandate'**;
- ▶ Real economic growth is being noted in pro-market supported ventures e.g. convention centres, place marketing etc, and the challenge is to try and ensure that there are genuine **pro-poor employment and development spin-offs** from such activities, as well as activities which specifically target growth at the bottom, either in support for the informal sector, in agriculture, in community-based tourism etc.



## Implications



### Some of the implications that emerge are that:

- Development is comprehensive in nature and **poverty needs to be understood as a multi-dimensional phenomenon** which cannot be simply understood as requiring only an income-based solution;
- Policy can explicitly target pro-poor development, either directly or indirectly, through the encouragement of appropriate market interventions;
- Poverty reduction interventions require explicit and coordinated policy and strategy support;
- Stability in policy and politics is critical in development;
- Planning needs to be effective and thorough, but an obsession with planning should not limit learning by doing and the undertaking of implementation.



## Recommendations



In terms of moving forward, the debate should seek to address the difficult question of how South African municipalities – collectively and/or individually – can achieve a growth path or trajectory which operates to achieve simultaneously the goals of enhanced competitiveness on the one hand and of poverty reduction on the other. Key recommendations include the following:

- It is essential that municipalities do not just conflate economic growth and poverty objectives. There is widespread international evidence that trickle-down of wealth is not significant, and specific activities are needed to promote pro-poor growth. So it is important to address growth of the formal (first) economy, but also to target specifically the small-scale and informal (second) economy. Concentrating support for the poor on basic services will not create economic livelihoods, and may continue to foster a dependency on the state;
- There is a need to arrive at a common understanding of just what is meant by key terms such as: LED, pro-poor LED, pro-growth LED and pro-poor growth or inclusive LED.;
- A supportive policy environment is required, including: national/state laws and policy which clearly and specifically empower local authorities, define their powers and duties, encourage interaction outside of the public sector, provides adequate financial support and training and facilitate external support/advice. Much of this is potentially available in South Africa;
- However, having a policy in place does not guarantee that there will be pro-poor outcomes. There are real applied constraints, notably on implementation capacity, which impact on the ability to implement change. Municipalities must be encouraged to devote realistic budgets and staff to LED Units, and LED-related services if significant impacts on investment, jobs and incomes are to be attained. Pro-poor LED services and projects also need to be adequately financed. Developmental interventions need to be accepted as part of all municipal functions in practice and policy. LED officials also need to conceptualise the potential role of a broader range of interventions which impact on poverty as being part of LED;
- It is critical that local governments define and implement effective monitoring and evaluation programmes to gauge the success of their initiatives. This should be based on both financial criteria and social impact assessment. Initially there may need to be experimentation to develop effective methodologies;
- There is still far too much competition between levels of government, including local and district municipalities, and between these municipalities and provinces. There is inadequate involvement of the private sector, with severe implications in terms of duplication and lack of synergy. Partnership formation/growth coalitions need to be strongly encouraged and private sector development encouraged, either through corporate social responsibility or coalition formation (see box 2). The private/community/NGO sectors all have key roles to play. They should be supported and encouraged to engage in collaborative and independent action; creating an enabling environment in which businesses, especially small operators, can flourish is essential; Associated with this is the need to recognise the fundamental importance of the small/ informal sector economy and to support its development as far as is possible.

### Promoting partnerships in Bolivia

Bolivia has a preferential grant regime to encourage partnerships. If local governments set up a joint partnership structure, the % grant allocations are higher, and they have created a special structure, a *mancomunidad*, for 2+ local governments to establish a structure for common purpose, eg for providing water services, or for supporting economic development.

*Khanya 2002*

- A clear case can be argued for a new LED Fund which targets support to economically sustainable services, as well as projects.

## Conclusion

The current trade-off of economic investment in the formal sector and pro-poor investment in basic services is not likely to yield the improved livelihoods in the informal sector which will transform the lives of the poor. Indeed in some respects other countries of Africa, while poorer, have managed to balance these more effectively, despite a poor macroeconomic environment, and so promoted greater self-reliance, and lessened dependency on government. Despite the apparently favourable legal and policy context and the significant resources of larger cities and the private sector, the experience of over ten years of

applied LED in South Africa indicates that applying pro-poor LED is possible, but difficult. For South Africa to obtain greater impacts requires clearer policy direction, a clearer articulation of the mechanisms that can be used and greater financial and capacity investment .

**Note:** This research was finalized in April 2005 and as such does not reflect subsequent developments in terms of policy and practice. The research Investigation of Pro-Poor Local Economic Development in South Africa is available from <http://www.khanya-aicdd.org>

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