

LEDA Review

Local economic development has become a critical policy issue in South Africa in the effort to combat poverty and unemployment. Many institutions, both public and private, at national, provincial and local level, are involved in different aspects of local economic development. Over recent years, Local Economic Development Agencies (LEDA) have emerged as significant new players in parts of the Eastern Cape and in other provinces. Against this backdrop and in the context of the work being undertaken to rationalise and coordinate the policy and institutional framework for local development in the Province, the Provincial Economic Development Forum chaired by the MEC for Economic Development and Environmental Affairs commissioned a review of the role, institutional location and the legal framework governing LEDAs.

The Local Economic Development Agencies have brought new energy, impetus and expertise to the development programmes of local and district municipalities in some parts of the Eastern Cape. Their remit is defined within national, provincial and local LED policy parameters. Some agencies have the focus of single purpose. Others have a wider mission. A critical institutional priority for local and wider-area development in the Eastern Cape is the need for clearer policy definition – and strengthened coordination and cooperation among the existing institutions at provincial, district and local levels. If the District based LEDAs can fulfil such an essential role – and have that mandate legitimised and accepted by provincial and other district and locally based institutions – they can add considerable value to the overall regional and local development effort in the Eastern Cape.

Who are the key partners in the Thina Sinako LED Support Programme in the Eastern Cape?

The Thina Sinako LED Support Programme brings together, and is spearheaded by a number of key departments of the Provincial Government of the Eastern Cape, as well as other entities responsible for coordinating, facilitating and supporting local economic development in the province. These include:

- The Office of the Premier – responsible for strategic inputs and oversight of the Programme as part of the PGDP;
- The Provincial Treasury – Contracting Authority and Implementing Authority for the Programme;
- The Department of Local Government and Traditional Affairs – lead Department for support to local government (District and Local Municipalities) in their role in creating the conditions for the sustainable development of the local economy;
- The Department of Economic Development and Environmental Affairs – lead department for economic development in the Province and with a special interest in mobilising local stakeholders – business, social partners, civil society – as well as other government and local government interests in the development of the local economy;
- The Eastern Cape Development Corporation – partner and host organisation for much of the development work of the Programme;
- District Municipalities that host regional offices and lead local actions of the Programme

Where to get more information?

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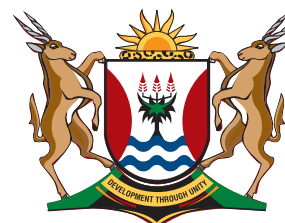
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Report on Investigation into Institutional Location and Roles of Local Economic Development Agencies (LEDAs)



comprehensive approach towards sustainable economic development



Project managed by the Eastern Cape Provincial Government and implemented with the financial assistance of the European Union

What is Local Economic Development?

In the face of historic levels of unemployment and widespread poverty, Local Economic Development (LED) is a critical policy priority in South Africa and in the Eastern Cape. LED is a unique policy tool for government to build a more inclusive society and economy, to increase the numbers people who are in sustainable economic activity and employment, as well as to actively reduce levels of dependence, poverty and exclusion. It is designed to help build the capacity of local institutions and communities – private and public - to work in common purpose with national and regional bodies to build strong, adaptable, confident, outward looking, cohesive and inclusive economies. Whereas other policies must work within their respective sectors – LED is cross-sectoral and integrative. It is dedicated to making the connections where these are not in place – often enabling national and provincial sectoral programmes to be better targeted and relevant to local circumstances. It is thus able to deal with complex problems that cannot be reached by standard sectoral approaches because of its ability to draw on local intelligence, networks, and commitment – and its capacity to bring a range of perspectives to bear on the issues being addressed.

LED brings together all the relevant stakeholding interests in the local area as partners in its development. Local development partnerships typically include

- those with the democratic mandate (local government - elected and officials),
- those responsible for wealth generation (business and labour organisations),
- state and parastatal entities and agencies delivering on a range of state and provincial policies/programmes in the area, and,
- local community interests as key stakeholders in the socio-economic development of the area.

The area-based partnership provides the vehicle for better mutual understanding of local needs, sharing different perceptions, learning to collaborate, networking, building trust, forging local consensus around priority objectives, co-managing shared actions, as well as creating and sustaining social capital. It is based upon shared responsibility and ownership rather than dominated by any one partner. Local partnerships will thrive better if supported by leadership teams and a new cadre of development workers skilled in the disciplines of strategic planning, programming and implementation, facilitating collaboration and coordination, brokering consensus and handling conflict.

What is the Thina Sinako Contribution to Local Economic Development in the Eastern Cape?

Thina Sinako is a 5 year Programme, financed by the European Union, to support Local Economic Development (LED) in the Eastern Cape Province. Its overall objective is to reduce the number of households living below the poverty line through the creation of new sustainable jobs and pro-poor economic growth. The Programme is constructed around three interconnected pillars –

- Development Grants (for demonstration, learning and impact),
- Institutional Strengthening (for local economic development) and
- Learning and Networking (exchange of experience).

The budget of the Programme is mostly taken up by Development Grants offered to local municipalities, community groups, entrepreneurs and other actors to implement projects with development benefit to the local economy. The three grant programmes are as follows:

Local Government Support Fund (LGSF): designed to support local government to create an enabling environment for the sustainable development of the local economy;

Local Competitiveness Fund: designed to stimulate and encourage local initiative from partnership based groups aiming to contribute to new and better jobs for the local economy, and improve the quality of life at local level;

Financial Innovation Fund: designed to encourage innovative approaches to improve access to finance to those who have traditionally been excluded from the financial sector.

In terms of its institutional strengthening role, Thina Sinako works with the Provincial Government of the Eastern Cape, as well as District and Local Municipalities to build the structures, systems, tools and the skills essential for the longer term development and efficient management of the local economy. In addition, Thina Sinako also seeks to contribute to the strengthening of other provincial institutions – including institutions of learning – dedicated to the spread of knowledge and skills development for LED.

“Local economic development” brings together the ensemble of all the factors necessary to generate sustainable local economic activity, local employment, local prosperity and local well being including – resources, raw materials, technology, know-how, investment, skills, enterprises, markets, regulation and standards, public procurement, transport and logistics, business related infrastructure, services to business, entrepreneurs, employees, labour market – communities and “can-do” self belief.

“Local” is the place where policies and problems collide. It is also the space where **“bottom-up”** and **“top-down”** meet and interact.

What distinguishes **local economic development** from more traditional sectoral policies such as enterprise development, agriculture, education, transport, labour market, social development, is its *integrated (cross-sectoral) character*.

Development is about building hard-won consensus and trust, underpinning local ownership as a pre-condition for effective outcomes – creating and nourishing over time the social capital essential for long term growth and development.

The obstacles to **local development** are complex, deep-rooted, “messy” and resistant to standardised prescripts. They need to be understood and addressed within the uniqueness of place and tackled through joined-up multi-agency initiative.

The growth of **LEDAs** reflects the recognition of the need for government at central and local level to mobilise other stakeholders in the development effort at local level.

Local Economic Development Support Programme in the
Eastern Cape Province (SA/120634/D/SV/ZA)

*Report on Investigation into Institutional Location and
Roles of Local Economic Development Agencies (LEDAs)*



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Executive Summary

Local economic development has become a critical policy issue in South Africa in the effort to combat poverty and unemployment. Many institutions, both public and private, at national, provincial and local level, are involved in different aspects of local economic development. Over recent years, Local Economic Development Agencies (LEDA) have emerged as significant new players in parts of the Eastern Cape, as is the case in other provinces. Against this backdrop and in the context of the work being undertaken, to rationalise and coordinate the policy and institutional framework for local development in the Province, the Provincial Economic Development Forum chaired by the MEC for Economic Development and Environmental Affairs commissioned a review of the role, institutional location and the legal framework governing LEDAs. In particular, the study was to:

- Assess existing policies and legislation relating to the establishment and management of regional and local economic development agencies
- Audit and assess experiences from existing development agencies in the province
- Assess the suitability of the municipal environment for local development agencies
- Analyse and confirm the existence/non-existence of impediments to the functioning of development agencies

The project was carried out by a two-person team – an international LED specialist and local legal expert. The task involved an extensive literature review, direct interviews, a questionnaire based survey, used mainly in telephone interviews. Furthermore, a focus group discussion was held with a team including core Provincial Departments responsible for LED and senior officers of LEDAs in the Province.

Discussing Definitions

In keeping with the Terms of Reference, the review takes a wide perspective and considers the policy management and delivery context within which LEDAs exist. Some definitions are essential for the discussion.

Firstly, local in South Africa is conditioned by geography and scale. Distances within local administrative boundaries can be considerable – with very different development priorities between the growing population centres and remote depopulating rural areas. In the context of the developmental state, the distinction between district and local municipalities is crucial. Development investment takes place at local level. There is a lack of clarity about higher order activities including coordination which take place at district level.

The pre-dominant interpretation of economic in LED in South Africa relates to enterprise development and attracting investment. While there is reference to “community economic development”, this strand of local development has been marginalised as “pro-poor” action. Although national policy statements are full of references to job creation, there is no evidence of any concerted focus on tackling the segmentation in the labour market – towards economic and social cohesion. National initiatives driven by the Departments of Labour and Education lack direct links to economic policies and programmes - all the more so when it comes to local level development planning. Furthermore, the actions in LED are frequently narrowly sectoral – eg forestry, farm, tourism and smme development. LED impact in terms of sustainable jobs and growth is not clear. Our definition of the “economic” in LED focuses on the much wider complex of issues shaping a local economy.

Development sits at the constitutional heart of South African government policy. The duty of development is fundamental to the work of all three spheres of government – national, provincial and local. However, it is necessary to re-define the respective development functions of government in terms of

- National development policy (priorities tackled at national level)
- Provincial (regional) development policy (priorities tackled at provincial Level)
- Local development policy (priorities tackled at local level – district/local)

One of the most critical development objectives, within local development, is the creation of capability locally to respond effectively to changes, challenges and opportunities for the local economy. This capability is most often associated with inter-institutional partnership, coordination and social capital at that level.

As for Agency in Local Economic Development Agency, the definition issue relates to its mandate. At present, in South Africa, Agencies are entities of local government, bound by the same legislation – and subject to oversight and scrutiny. Some Agencies have argued that legislative and institutional constraints blunt their effectiveness as drivers for development and have argued for greater operational autonomy.

Local Economic Development – An Encompassing Policy Context

The policy context within which LEDAs operate spans a range of “inter-locking” orientation and programme documents - from the centre of government to local government offices in some of the most rural parts of the country. The key policy statements are:

- National Spatial Development Perspective (Commission of the Presidency)
- National Local Economic Development Framework (DPLG)
- Provincial Growth and Development Plan (EC Provincial Government)
- Integrated Development Plans (District and Local Municipalities)
- District Growth and Development Strategies (District and Local Municipalities)
- Local Economic Development Strategies (District and Local Municipalities – some)

The overarching policy goal is economic growth for poverty alleviation. Setting the overall direction, the NSDP stresses the focus on comparative and competitive advantage of places. To overcome the spatial distortions of apartheid, the NSDP encourages an approach based on “people rather than places” – exploiting local opportunity where such exists – or promoting mobility out from areas deemed less favoured in terms of development potential. Wider area development strategies – along identified corridors – can, the NSDP suggests, go some way towards overcoming such disadvantages. Part of the confusion around LED may lie in the ambivalence in dealing with place – places where people are. The comparative advantage approach, put forward in the NSDP and applied through all other LED frameworks, tends to bias the development effort towards areas of greatest potential, creating a basis for widening spatial disparities and unbalanced development.

The National LED Framework provides further guidance for provincial, district and local government, highlighting small and medium sized enterprises as the primary target for LED policy intervention. It introduces the “Sustainable Development Community Investment Programme” and encourages local action to integrate “communities into the mainstream of the economy as critical players through their own organisation, supported by innovative methods of delivering government expenditure”. The Guidelines contain little advice to local groups to suggest that local economic development strategies could/should also include actions to improve the performance of the local labour market in the face of chronic unemployment, deep-rooted segmentation and inequalities. Nor do they offer insights to good practice and standards in the management of LED at district and local levels.

The Provincial Growth and Development Plan sets the broad policy direction for development within the Eastern Cape. It emphasises, in particular, an integrated approach to poverty eradication, agrarian transformation and food

security, diversification in key sectors – manufacturing and tourism, infrastructure and human resource development as well as improved public services and institutional reform and strengthening. However, the capacity of the PGDS to influence the development direction at district and local level is weakened by the absence of either a management or monitoring framework – and the lack of a committed financial plan. The Growth and Development Summits held in February 2007 provided an opportunity to review progress with social partners, refine direction and recommit for the future – but did little to firm up arrangements for implementation, including better harnessing and management of financial resources.

At District and Local level, the Integrated Development Plan (IDP) process is well established and an integral part of the local policy and development management cycle. The IDPs encompass investment and expenditure plans for provision of basic services, locally strategic infrastructure – as well as other local development actions. While they are the subject of wide consultation, many non-government respondents felt that they have little real opportunity to influence the IPD which is largely driven by the operational priorities of local authority departmental managers.

Local economic development strategies are normally included within the IDPs, although not all local authorities have a current LED strategy. Most strategies are essentially collections of projects rather than drawing on a thorough analysis of the socio-economic situation in the area to define local action plans based on real needs. While the inclusion of a project in the IDP/LED strategy is generally a pre-requisite for financial support, many funding institutions report that the majority are not ready for such support and represent “wish-lists” rather than developed action plans. The lack of firm financial commitments and expenditure plans fundamentally undermines the potential impact of the Local Economic Development strategies – and the IDP process in general.

Such is the policy and strategic backdrop to the work of the Local Economic Development Agencies. There is a confusion around the definition, purpose and function of local economic development which influences the performance of LEDAs and other development bodies.

Local Economic Development - A Crowded Institutional Space

The institutional platform for local economic development is a crowded place – at national, provincial and local level. Most of the bodies involved tend to operate within their sectoral orbits. Duplication is an issue. Coordination and joined-up management is less evident. At national level, the Department of Provincial and Local Government has been promoting local development through its efforts to strengthen the capacity of local government to provide leadership and direction in the context of the LED framework. The Department of Trade and Industry (through the Industrial Development Corporation) has been active in the creation of Local Economic Development Agencies in response to the perceived need for a more business oriented approach to local development. The Department of Agriculture nationally takes the lead in rural development. The Department of Public Works has a significant role in the roll-out of hard infrastructure across the country that has an impact on local economic development, while the Department of Public Enterprises takes the lead in the establishment and development of strategic economic development zones and the public entities that lead them. The Department of Environment and Tourism Affairs is also one of the major project funders in local areas – purely on a project basis. Outside the government departments, the Development Bank of Southern Africa (DBSA) is also a significant player, as is the Independent Development Trust (IDT) and the National Development Agency (NDA) which has an interest in particularly community-anchored development initiatives. Significantly, the Department of Labour, with overall responsibility for labour market management and development – including local labour markets – is not, it seems, directly involved in the articulation, delivery or oversight of local economic development, notwithstanding more recent efforts such as the National Strategic Skills Programme initiated in 2006.

Some of the institutions in the Provincial Government of the Eastern Cape have begun a process of institutional convergence for better leadership and coordination of the local development effort across the Province. Within the logic of the National LED framework, the Department of Local Government and Traditional Affairs (DLGTA) has responsibility for guiding and supporting the LED activity of local government at both district and local levels. The Department of Economic Development and Environmental Affairs (DEDEA), for its part, provides some funding for local economic development through its Local Municipality Support Programme. Both Departments have begun to work more closely together – and have been engaging the Department of Agriculture in that process. There will be a need to widen the scope of the “convergence” exercise to include such key provincial institutions as Social Development, Public Works, Roads and Transport and Education – all of which have programmes which impact one way or the other on local economies in the Province. The major omission at Provincial level remains that of labour market institutions.

The LED space at district and local levels is equally cramped – although often lacking the people to do the job, especially in smaller and poorer local authorities. The organisational frameworks in municipalities are complex – and LED Units are somewhat marginalised in the decision-making hierarchies. Staff structures follow sectoral lines – eg forestry, agriculture, smme and tourism specialists. There is little capacity for leading a strategic and integrated development planning process.

Local Economic Development Agencies – “New Kid on the Block?”

Where Local Economic Development Agencies have been set up (with initial three year support from the IDC) – currently eight within the Eastern Cape – these vary in purpose, size, resources and relationship with their host local authority. Two are at District level (Amathole EDA and Ntinga OR Tambo). Several have a very specific urban (physical) regeneration focus (eg Nelson Mandela Bay Development Agency, Buffalo City Development Agency, Port St Johns). Others, eg Blue Crane Route Development Agency, promote innovative projects. From the point of view of the sponsoring IDC, the agencies are a “focussed and dedicated” mechanism for economic development “owned by the municipality ...with public interest and accountability but using private sector tools and strategies”. There is an inference that the agencies can take on a significant part of the “developmental” role of local government. The Eastern Cape has the highest concentration of registered LEDAs.

The LEDAs have brought new skills, a wide range of experiences and a sense of leadership to the development challenge in many areas. They have opened up new networks to local development – investment and business. The more effective agencies have been able to accelerate the transformation process - identifying underused assets with development potential, brokering opportunities, leveraging in substantial funds often from new, previously untapped, sources. Others, however, are facing resource constraints – particularly in terms of operational and running costs – and are increasingly dependent upon heavily conditioned donor funding. The human resource capabilities of the LEDAs are another seeming factor in influencing the performance of the LEDAs.

It is premature to measure the impact of the Agencies in terms of their local development potential. Their link with the predominantly enterprise notion of development has tended to narrow their field of vision and application. There is the risk that those development strategies which focus exclusively on the economic and fail to take account of the complexities of the situation – social, cultural, geographical, to mention but some – can create new imbalances and widen existing disparities. The much publicised focus on High Impact Projects as distinct from community based interventions (for both Agencies and LED Units) is still at an early stage of implementation – but to date there has been anecdotal evidence that many such larger projects are equally prone to poor design and management – and failure. Equally, the absence of analysis of the dynamics of the local labour market – or of the factors perpetuating long term unemployment, under-employment and poor productivity - in many local development strategies prepared by the agencies – points to a development “blind spot”.

LEDAs and Municipalities – A Developmental Relationship?

Relationships between LEDAs and their host local authorities differ from place to place. In general, the agencies have good relations with senior management and political leaders in the municipality. The more defined and clear-cut the mandate, the greater the potential for effective authority-agency relationships. In those circumstances where the definition of LED and the allocation of roles is less distinct, there is scope for confusion, duplication and even rivalry between local government LED Units and Agencies.

Given their status as wholly owned municipal entities - there have been concerns that the legal framework for local government – especially the Municipal Structures Act, the Municipal Systems Act and the Municipal Finance Management Act – blunts the entrepreneurial effectiveness of LEDAs. However, many of the agencies have learned to live within the requirements of the Acts and have built standard procedures into their dealings with their host municipality to ensure compliance while getting on with the job. That is not to dismiss the value of a wider review of the policy and legislative framework which ties LEDAs to the local or district municipality. Internationally, there are many models of LEDAs existing outside the governance framework as accountable “public good” entities in the legal form of the country concerned.

There is a need for further clarification of the different development roles of the LEDAs at local and at district municipality levels. The locally based LEDA is probably better placed to realise the DTI/IDC intent of bringing unused local assets into the development process. In this context, those agencies set up to regenerate urban economies by focussing on improving the attractiveness of the location have a clearly identified and agreed purpose. It is critical, nevertheless, that they work within the wider (coordinated) effort to build a more economically and socially cohesive society locally.

District LEDAs have taken on a more strategic, spatial planning and development role. The development corridor and small towns approach of Amathole Economic Development Agency is a case in point. The AREDS focuses on the strategic needs and opportunities at that level – in terms of infrastructure, structure of the economy, obstacles to the free flow of the labour market. The agency is working in partnership with the DM, other district based institutions - and with provincial and national institutions to promote balanced development within the district.

The bottom line is that however effective the LEDA as a development agent, it is but one player in the development challenge. Better coordination based upon partnership around a common vision, an integrated strategy – and committed financial resources - for local development remains an elusive goal. Much of the challenge around sustainable development relates to the fact that the practice of institutional coordination, cooperation and collaboration – formal and informal – public and private – government and non-government – does not function well. In such circumstances, the critical development question is whether LEDAs can build and consolidate local social capital where this does not exist or is weakened – or whether they are simply another competitor for scarce resources.

LED Convergence and LEDAs

Despite the IDP and existence of LED strategies, there is a sense that both the energy and coordination of the development effort is lacking – both at local and district level. Several provincial government institutions are planning a series of consultation activities to roll-out the ideas and practices around institutional convergence and coordination to the districts. “Convergence” is essentially an exercise in institutional strengthening rather than any intention to create new institutions. It will involve a concerted effort to bring the development agendas – and resources - of different locally

based institutions into a common framework for action. The organisations targeted, in the first place, are, in addition to the LED Units of the District Municipalities, where these exist –the District offices of DEDEA, Agriculture, Social Development, and others as relevant.

The structures which will give shape to “convergence” are not yet clear – but will most likely involve provincial departments working to align their efforts with those of district and local. It is conceivable that a LEDA could provide a distinctive contribution by serving to coordinate that process at district level. The district development agency can facilitate the preparation of the district area development strategy, serve a valuable role in brokering development initiatives over several local municipalities, undertake monitoring and help identify lagging local areas for a more targeted and supported effort. A central part of its value adding role would be in the provision of practical support to local areas in the preparation of local action plans.

There has been an argument that District based development agencies could act as Regional Development Agencies. Such a scenario raises the issue – referred to above – of differentiating 1. national – 2. regional and – 3. local development. Specifically, it poses questions in relation to the levels at which financial resources can be concentrated and programmed for strategic investment supporting the development of the regions. The reality is that district and local look to provincial (or national) departmental programmes for such support – eg Port of East London or other major infrastructure. It is unlikely in the medium term that sufficient financial critical mass can be mustered at district level for such expenditures.

In conclusion, the LEDAs have brought new energy, impetus and expertise to the development programmes of local and district municipalities in some parts of the Eastern Cape. Their remit is defined within national, provincial and local LED policy parameters. In general, these tend to be narrow in focus, lose sight of the wider social and economic cohesion objective – and run the risk of compounding and perpetuating local and regional imbalances. The critical institutional priority for local and wider-area development in the Eastern Cape is the need for clearer policy definition – and strengthened coordination and cooperation among the existing institutions at provincial, district and local levels. If the District based LEDAs can fulfil such an essential role – and have that mandate legitimised and accepted by provincial and other district and locally based institutions – they can add considerable value to the overall regional and local development effort in the Eastern Cape.

Recommendations

In the light of the findings of the review, we would offer the following recommendations for consideration by policy makers and managers in the Eastern Cape.

1. LEDAs have become a regular feature of the institutional landscape for local and wider development. After several years of experimentation, it is now opportune to call for a clearer and more objective value-adding contribution from them – and to sketch out areas of good practice. Development Agencies operating at District and Local levels have quite different roles to play in the local development effort – their mandates and organisational profiles need to reflect these differences.

- a. At local level, development agencies tend to specialise in one or several aspects of the development agenda. For example, Buffalo City Development Agency is predominantly focused on promoting the physical regeneration of parts of the city, while the East London IDZ has a clear focus on industrial development and promotion of enterprise as well as foreign direct investment. Nelson Mandela Bay Development Corporation fulfils an urban regeneration function in the Nelson Mandela Metro. These are critically important factors in the local and wider regional development equation. They can serve a vital function and bring very necessary new skills, acumen and networks into the local development process. However, their work – and that of other institutions, public and private, needs to be better coordinated into the overall development effort.

- b. At district level, the overall challenge facing development agencies and related institutions is to promote the balanced socio-economic well-being of the entire district. Potentially, this could involve –

- i. facilitating the preparation and adoption of a district-wide development strategy,
- ii. brokering consensus and shared objectives across a range of different and competing sectors, interest groups,
- iii. mustering the necessary resources to meet district wide strategic priorities,
- iv. serving as bridge between provincial/national programmes and district/local users – (informing, interpreting, monitoring district impact, supporting negotiations)
- v. supporting (or coordinating) the implementation of the strategy,
- vi. identifying and supporting joint initiatives from the local level.

In addition, the District development agency will have a significant role to play in ensuring the balanced development of the district.

- vii. In particular, the agency can play an important role in providing assistance to local areas at risk of lagging further behind.

Amathole Economic Development Agency is a clear example of an agency fulfilling a number of these roles.

2. The resource needs of Local Economic Development Agencies differ between district and local.

- a. In the better endowed local areas where the agencies have a strong asset base and property portfolio to work with, after initial start-up costs, it is likely that market logic and performance will be the primary factors in determining resource potential. In short, over a relatively short time, these agencies can become broadly self-sufficient.

- b. District based development agencies are moving into a new institutional space – not previously catered for in the private sector – nor in the public. The funding base for these institutions is more precarious. After the initial three year start-up support from IDC, the district based agency will depend upon resources available at district municipality for operational and organisational development purposes. Other funds are

normally limited to programme costs only. (Amathole example). There is a strong argument for Provincial Government, through DEDEA as the coordinating department to make adequate budgetary provision for District Development Agency establishment and running costs as an ongoing investment in development capacity (subject to performance monitoring). This is an example of public resources for public good. An analogous argument can be made for the electricity power sector – where public resources are needed to create the machinery for generation and supply, including capacity which is only periodically required. When it is needed – it must be there!

3. The organisational and skills profiles of Local Economic Development Agencies differ between district and local.
 - a. The skills and organisational profile of the locally based LEDAs reflect their more specialised purpose. These institutions seek to recruit staff with skills and expertise associated with business and enterprise, including at senior levels. In the case of urban regeneration type agencies, in addition to planning, property development and project management, there is a need for skills in communication and building consensus with local groups likely to be affected by development projects.
 - b. At district level, there is a need for quite different development competences (not commonly available), including – development management, strategic planning, programming and programme management, working across a range of institutions, working across sectors (eg economic, social), area-based development (regional, rural, urban). These are in short supply and there is a need for a new cadre of development professionals.
(point addressed in Rec 4 below)
4. There is a need to engage with higher education providers in the Province (eg Fort Hare) and nationally, to explore the potential for introducing and/or enhancing undergraduate, masters and PhD programmes in new development competences. There are international examples – and possible opportunities for twinning.
5. Not every local area will be able to afford its own LEDA. Many local authority areas – especially rural - are too small - and lacking resources. It is important therefore that the growth of LEDAs does not lead to further disadvantaging large parts of the Province. The dual role of District agencies – strategic management – and promoter of balanced development – should go some way to ensure that this is not so.
6. On the specific question of constraints on the effectiveness of agencies arising from the application of the MFMA (and related legislation), the divergent evidence gathered in the course of this review leads us to recommend a best practice/exchange of experience workshop (or series) involving LEDAs active in the Eastern Cape along with local, district and provincial government representatives.
7. DPLG has commissioned the preparation of a comprehensive set of guidelines for institutions (local authorities) considering whether to establish or not a local development agency. This requires a thorough review of institutions involved locally – their role, resources and mandate – and an in-depth reflection on the socio-economic problematic to be addressed – before any decision to set up an agency is taken. These guidelines will offer an invaluable resource to local and other decision makers – including IDC and other funding bodies.

1.0 Introduction

This report is the output of a short term assignment undertaken on behalf of Thina Sinako European Union project to support LED institutional development and capacity building in the Eastern Cape. The exercise was carried out at the request of the MEC for the Department of Economic Development and Environment Affairs (DEDEA). Its purpose is to assist the Eastern Cape Provincial Government to investigate the policy, legal, institutional and operational context of the Local Economic Development Agencies (LEDAs) active in the Eastern Cape with a view to understanding better how these factors impact on their effectiveness in delivering local economic development. The review is intended to inform the current discussion around the role, responsibilities and relationships of LEDAs at national, provincial and local levels – and the wider local development debate.

1.1 Reiteration of brief

The scope of the work to be carried out is specified in the Terms of Reference: Institutional location and roles of local economic development agencies (LEDAs), September 2007. The core tasks are set out below.

1. Audit and assess experiences from existing development agencies in the province
 - a. studying plans held by the IDC and others around the establishment of LEDAs, as well as reports on their performance; strategic plans, annual reports and other relevant documents developed by and held by the LEDAs themselves, as well as analytical reports developed on LEDAs by independent analysts
 - b. consulting and interviewing a sample of development agencies on their experiences and views on preferred institutional, legislative and relational configurations for effective functionality.
 - c. searching for, and analysing examples of comparative international practice and experience on LEDAs
2. Assess existing policies and legislation relating to the establishment and management of regional and local economic development agencies
3. Assess the suitability of the municipal environment for local development agencies
4. Analyse and confirm the existence/non-existence of impediments to the functioning of development agencies

1.2 Interpretation of brief

The enquiry was prompted by ongoing discussion around the involvement and impact of Local Economic Development Agencies in the local economic development policy context in South Africa. Emphasis upon local action for economic development has been a key theme in the South African “developmental state”. Local authorities, as one of the three spheres of government in that context, have a critical leadership role to play in the growth and development process locally. However, there is an appreciation of the limitations of local governance structures alone in stimulating economic development in the context of a market economy. The centrally based Industrial Development Corporation, as part of its effort to restructure the economy overall, has promoted, in the last years, the concept of local economic development, driven by business-friendly agencies managed and staffed by development professionals.

In keeping with the principles underpinning the “developmental state” and the primacy of the democratic mandate, the LEDAs currently in existence have been set up as entities of their respective local government, both at district and local level. Their distinct “arms-length” legal status enables them, potentially, to put hitherto unproductive municipal assets to work for local public benefit. Their business acumen and pro-business profile makes it possible for them to develop effective working relationships with entrepreneurs and the business community. However, while they enjoy considerable autonomy in their field of operation to stimulate economic activity, the LEDAs are required to act within the policy and strategic framework set by the local authority. Legislation introduced since their inception, in particular, the Municipal Finance Management Act, reinforces their reporting obligations. There has been a concern on the part of the management of some of the agencies that the imposition of these requirements is curtailing the effective functioning of the LEDAs and blunting their potential as vehicles for local development.

The direct purpose of the current exercise therefore is to explore the legal and institutional contexts within which the agencies are working – and to understand better how these impinge upon their functioning and eventual contribution to the development of their localities. However, the bigger picture for the local development agencies is shaped by the overall policy framework for local economic development at national and provincial levels. To appreciate the potential and the limitations of the LEDAs, it is critically important to understand how that wider policy agenda defines the local economic development process and outcomes.

The agencies, as presently conceived and focussed, are but one (specialist) actor in the team effort required for sustainable (socio-) economic development – like bricklayers for house-building, necessary but not sufficient! The boundaries placed on their field of operations stem as much, if not more, from the interpretations of “local economic development” at the heart of existing policy framework, as from the legal constraints and confusions arising from the relationship between LEDA and municipality.

For that reason, we submit a set of perspectives, wider than initially specified in the Terms of Reference, in the belief that these will contribute to the vigorous debate which is taking place around local development policy in South Africa. By the same token, we have sought to address the immediate issues concerning the legal and institutional location of LEDAs and the impact on their effectiveness.

1.3 Methodology (and limitations)

While the review had been designed as a participative exercise involving personnel from both the Department of Local Government and Traditional Affairs and the Department of Economic Development and Environmental Affairs, it has been possible to work only marginally with two officials from the former. Timing, work pressures and even transport needs restricted the more active involvement of Provincial Government officials. Nevertheless, we have aimed at regular intervals to share findings, observations and impressions with the DLGTA team. We have met with senior

management in DEDEA with a view to using the review and report to support policy development there.

Desk research included a review of policy frameworks, development plans and reports from key institutions concerned. We learned much about the origins of LEDAs and about the historical and ongoing issues facing them and other stakeholders in the development context in South Africa through quarrying a rich vein of literature on the subject.

Interviewing took much longer – was more spread out over the work period – than originally planned, due to time pressures on many of those whom we wished to interview. Geography and travel times were also factors and in some cases interviews were conducted by telephone. However, as the list of interviewees in Annex 1 shows, virtually all of the representative interest groups were finally included. Face to face interviews rarely followed the sequencing of the questionnaire (copy attached in Annex 2) although the less structured discussion included consideration of the key issues.

2.0 Defining and Discussing: Local – Economic – Development – Agency

2.1 Local

“Local” is the place where policies and problems collide. Local is where people live, work, study and have a sense of “local identity” – in labour market terms – local can best be understood as being within normal daily travel distance. In the South African governance context, “local” applies to two levels of “local” administration – district and local. The six district municipalities in the Eastern Cape (6.4 million inhabitants) range from 350,000 (Cacadu) to 1.7 million (O.R. Tambo) population, while the population of the Nelson Mandela Metro area is 1.5 million. In other contexts (eg European Union), these would be classified as regions rather than “local” areas (indeed, some EU member states are smaller). The 38 local municipalities, on the other hand, also range considerably in population size – from as small as 6,500 Aberdeen Plain and 10,371 in Ikwezi municipalities (both in Cacadu District) to 415,277 in King Sabata Dalindyebo (OR Tambo District). Buffalo City is classed as a local municipality in Amathole District, with a population of almost three quarters of a million.

Many Eastern Cape local authority boundaries comprise a considerable land area, combining urban concentrations and large more sparsely populated rural zones. Scale and character are compounded by geography and infrastructure – inaccessible locations, poor roads, lack of (public) transport. These conditions tend to reduce the footprint of the “local”, as far as popular perceptions are concerned. In considering the role of local economic development agencies in the Eastern Cape, it will be important to keep in mind the character of “local” and to consider how best from a policy management and programming point of view to differentiate between actions more appropriate at local, district or, indeed, provincial levels.

2.2 Economic

“Economic” brings together the ensemble of factors necessary to generate wealth and sustain the generation of wealth, including – resources, raw materials, technology, know-how, investment, skills, enterprises, markets, regulation and standards, public procurement, transport and logistics, business related infrastructure, services to business, entrepreneurs, employees and labour markets. At the local level, these general factors assume local distinctiveness, combinations and identity. In the Eastern Cape, the elements of the economic equation are not coming together to ensure the livelihoods of a large proportion of the population, as evidenced by the level of unemployment (30%), underemployment and extent of poverty - an estimated 68.7% of the population living below the poverty threshold, which is the highest in South Africa¹. As a result, much of the economic development policy discourse, at national, provincial and local level, has been dominated by the overwhelming need to create jobs and reduce poverty.

The complex of economic related issues which underpin those twin policy imperatives at local level can only be adequately tackled through joined-up, integrated development strategies combining a range of different approaches. Much of the literature on local economic development in South Africa (and elsewhere) would concur around three broad areas of intervention ²:

- Actions to promote enterprise development – as the vehicle to create jobs and to induce an enterprise culture locally;
- Actions to improve the attractiveness of the locality for investors (place-shaping – eg infrastructure - physical regeneration – industrial development zones - techno-poles – image of area)
- Actions to stimulate community economic development – small scale and seen essentially as pro-poor – frequently creating forms of economic activity around food security and subsistence in rural areas – community enterprise and social inclusion - self-help and “can-do” initiatives.

Within the economic development policy community over recent years, there has been an ongoing debate between, on the one hand, proponents of pro-poor policies and, on the other, pro-growth. The ebb and flow of this discussion has been reflected in some localities in a bias for projects which either target poverty alleviation, on the one hand - (sometimes disparaged as “chicken runs”) – or alternatively, actions designed for high impact job creation (public works or public-private partnership ventures, urban physical regeneration). These latter tend to emphasise the importance of the enterprise development and locational factors in the local economic development “mix”. Currently, there has been a retreat from community economic development type actions in favour of the higher profile enterprise development/job creation projects – and highly visible urban regeneration schemes.

Such divisions in policy thinking and action are not unique to South Africa. They have been – are being - played out to a greater or lesser degree in situations where local (economic) development has been introduced as a new policy strand to address the complexities that make up “the local”. In some cases, the differences have been reconciled within a consensus that “there can be no social development without economic development – and there can be no economic development without social development” which has informed policy and action.

Local action within the labour market has long been a central feature of local economic development in many parts of the world (eg European Union, South America). There is a rich body of experience and good practice in the field of active measures at local level to address such issues as employability, tackling long-term unemployment, improving productivity and adaptability, facilitating more flexible working arrangements, to mention but some key issues. Given the extent and depth of joblessness and long-term unemployment in all of the districts and local municipality areas of the Eastern Cape, there is a compelling case for widening the definition of local economic development. We would argue that this should include, in addition to enterprise promotion, improving the image of the locality and community economic development, a fourth strand - better understanding of labour market dynamics – and the potential for innovative local actions to lay down pathways towards a more integrated (and employable) workforce. Local action for employment is an integral part of local economic development.

1 Provide Project – Background Paper 2005/1 – Profile of

2 References PGDP and IDPs

2.3 Development

“Development” carries with it notions of the need for systemic change to create better conditions shaping the livelihoods and future prospects of the population. It invokes a sense of having to catch up with more prosperous parts – or responding to crisis where the conditions are more marked and extreme in terms of poverty and unemployment.

What distinguishes local development (as distinct from LED) from more traditional sectoral policies such as economic development, agriculture, education, transport, etc is its integrated (cross-sectoral) character and problem-focus. Development issues within local areas rarely fall within the scope of a single sector. They are complex, deep-rooted, “messy” and hard to tackle. Take early school leaving in a local area, for example – can the causes or consequences be countered simply through action by the education authorities alone? Or can failing productivity and competitiveness within a particular local area be treated as a matter solely for industrial policy managers? Local development requires joined-up multi-agency responses. By their very nature, development problems are complex, are resistant to standardised prescripts, and need to be understood and addressed within the uniqueness of place.

By the same token, local development also thrives on exchange of experience and the dissemination of good practice. Good practice in development has been associated with well grounded actions which are taken on the basis of commonly identified and understood needs, agreed priorities, managed and coordinated strategies, monitored progress and evaluated results, leading to better learning, insights - and improved capacity for dealing effectively with future situations. It is collaborative and co-ordinated in character – drawing together different sectors, different institutions, different actors in common purpose – and at the same time creating the space for each to apply their specific skills and professionalism. Development which is exclusively project-focussed, which takes short-cuts to sectoral solutions, however visible in the short term, but without full understanding of the complexity of the problems being tackled, is less likely to sustain long term local competitive advantage. Development is about building hard-won consensus and trust, underpinning local ownership as a pre-condition for effective outcomes. It also concerns the strategic management infrastructure for coordination and learning from experience for future challenges. Local development is investing in the capacity to work across institutions sharing the same dedication for problem solving - as much about process as about product!

Local development creates the space where “bottom-up” and “top-down” meet and interact. It can provide the context within which local understanding of needs - and commitment to action - combines with policy, guidance and resources from national (and regional/provincial) levels. Many foreign donor initiatives, however innovative and locally worthwhile, fail to make the essential connections into mainstream national policy. As a result they leave little lasting legacy in overall development terms. Similarly, purely local initiatives, in the absence of a national policy framework for local development, are one-off – and are difficult to sustain (like a vine without support attachments). Equally, national/provincial initiatives, which are lacking local intelligence and engagement, are cut off within their sectoral silos – unable to address the complexity and deep-rootedness of local conditions. Local development opens a two-way communication between the centre and the local – from the top down, informing local action through common policy guidelines and good practice – from the bottom up, contributing to policy formulation through reflective learning based on practical experience on the ground.

Local development is also the framework which brings together all the relevant stakeholding interests **in the local area** as partners in its development. Local development partnerships typically include

- those with the democratic mandate (local government - elected and officials),
- those responsible for wealth generation (business and labour organisations),

- state and parastatal agencies managing a range of state and provincial policies/programmes in the area, and, finally,
- local community interests

– as key stakeholders in the socio-economic development of the area. The area-based partnership provides the vehicle for better mutual understanding of local needs, sharing different perceptions, learning to collaborate, networking, building trust, forging local consensus around priority objectives, creating and sustaining social capital. It is based upon shared responsibility and ownership rather than dominated by any one partner. Effective partnerships are strategic decision-makers rather than consultative talking shops. They apply modern management methods, a management team and a new cadre of development workers skilled in the disciplines of strategic planning, programming and implementation, facilitating collaboration and coordination, brokering consensus and handling conflict.

One of the key policy outcomes associated with local development - in addition to the creation of new jobs, improved skills and employability, increased prosperity and social cohesion – has been the generation of social capital. Social capital formation is not simply a by-product of local development. It is integral to the overall goal and purpose of investing public resources into this policy field. In a seminal study³ undertaken in 1998-99 across regions in the EU which had benefited from EU Structural Funds over the previous decade, investment in social capital was identified as one of seven critical factors associated with sustainable regional competitiveness, (alongside public expenditure on restructuring the economy, human resources, infrastructure, innovation, services to business and strengthening local and regional governance).

2.4 Agency

Agency: “a business or other organisation providing a specific service⁴”. Local Economic Development Agencies have been associated with local development in Europe and other parts of the world as local initiative has become an increasingly important factor in national and regional development policy. According to the ILO “A local economic development agency is a structured body through which local players pursue economic development objectives in their own territory. The main purpose of a LEDA is to stimulate the economic territory where it works, capitalizing on endogenous resources and concentrating on support for those groups with the most difficult access to regular economic and financial channels.”⁵ Their main function has been in the field of job creation through stimulating increased economic activity mainly through support to small enterprises and start-ups. Over time, the LEDAs have been involved in a range of related activities – “basic infrastructures, farming, livestock, the craft industry, forestry, tourism and the rebuilding of local economies following a period of civil conflict” (CIARIS-ILO). According to the ILO, the key features of a Local Economic Development Agency are:

- a legal framework
- non-profit
- local dimension
- brings together public and private-sector players in a consortium.

The legal structures for LEDAs vary according to national legislation – and include associations, cooperatives and not for profit companies. Effective agencies have become largely self sufficient over time, providing a range of tradable services to business and government, including programme management. Many have built a strong asset base and often act as workspace/facilities manager to small and start-up businesses.

³ *Periodic Report on Competitiveness within the Regions – European Commission – DG Regio - 1999*

⁴ *Collins English Dictionary.*

⁵ *CIARIS – Learning and Resources Centre on Social Inclusion –*

ILO http://www.ilo.org/ciaris/pages/english/tos/strprinc/partenar/methodes/fiche_1.htm

The growth of LEDAs reflects the recognition of the need for government at central and local level to mobilise other stakeholders in the development effort at local level. However, the basic issue affecting the relationship between the sectors involved – public, private and third sector (non-government) – relates to accountability and mandate. Who defines the “public good” in the development context? How do agencies interpret their mandate? To whom do they report for the use of public assets and public finances – as a “public good” entity?

Those involved in local development and in the LEDAs in South Africa are today coping to a greater or less extent with these and similar questions. Within the group of agencies currently operating in the Eastern Cape, there is a fairly broad spectrum of specialist and more generic activity – including urban (physical) regeneration, place shaping, enterprise development, property management, rural, village and small town development. Some are located at district level (eg Amathole Economic Development Agency, OR Tambo Ntinga Development Agency) while others operate at local municipality level, often within more strictly defined spatial boundaries (eg Buffalo City Development Agency, Port St John’s Development Agency, Blue Crane Route Development Agency, etc). Mandela Bay Development Agency is a “special purpose development agency” working within a clearly designated field of operation on behalf of the Nelson Mandela Bay Municipality, as set out in a service level agreement with the Metro.

Central to the enquiry then will be a reflection around the role of the agency in the local development process – whether specialising in one or other aspect of enterprise promotion – or facilitating a more integrated and joined-up approach.

The dominant model in the Eastern Cape is that of the single focus agency – bringing a high level of expertise and professionalism into a particular field of development. However, unless these are coordinated within a wider strategic framework, there is potential for unbalanced development over the longer term. There is a risk that the benefits generated by the concentrated focus of the development agency in such areas as enterprise development and physical regeneration in some urban areas will be outweighed by the costs of increased unmanaged in-migration from rural areas starved of investment and development opportunity. The critical question relates to how the overall local economic development process is managed – and the potential roles of the LEDAs in this broader more strategic context?

3.0 Local Economic Development in South Africa/Eastern Cape

Any review of the literature on development in South Africa will confirm the sense that local development is an integral part of the national policy landscape. There can be few countries in the world where the references to the local are as explicit and recurring. The emphasis upon local action for growth, jobs and the eradication of poverty permeates policy documents from the very centre of government (Commission of the Presidency), state departments, through the Provincial Growth and Development Strategies, the Growth and Development Summits at Provincial and District level to the Integrated Development Plans at District and Local Municipality levels.

ToR: Assess existing policies and legislation relating to the establishment and management of regional and local economic development agencies

3.1 Mapping the policy and institutional framework for LED at national and provincial level

The main policy context for local economic development in the Eastern Cape is the National Spatial Development Plan which has been prepared by the Department of Policy Coordination at the Presidency, the Guidelines for Local Economic Development prepared by the Department of Provincial and Local Government (2005), the National LED Framework (2006) of the DPLG, the Eastern Cape Provincial Growth and Development Strategy (2004-2014), individual Departmental strategies at the level of provincial government, and the District and Local Municipalities' Integrated Development Plans.

3.1.1 National Spatial Development Perspective

The National Spatial Development Perspective was prepared by the Policy Coordination and Advisory Services (PCAS) in the Presidency and endorsed by the Cabinet in 2003. The NSDP is a high level document which establishes the essential principles for development planning as much to address the legacy of the past as the challenges of the future.

In particular, the NSDP emphasises the importance of the economic growth objective as the sine qua non for poverty alleviation and establishes that goal as the primary objective of state spending outside the provision of basic services to all citizens. It suggests that the focus should be on people rather than places – exploiting potential, where this exists, to create jobs and increased economic activity locally – or adopting strategies to promote labour mobility where it (development potential) does not exist. To spread the beneficial effects of investment, development opportunities should be channelled into “corridors” (‘place and people’) in an effort to overcome the spatial distortions of apartheid era growth policies. Local potential is considered against the incidence and depth of local poverty to determine a region’s development potential – and in assessing overall comparative advantage, “institutional adequacy will help determine whether development is sustainable or not”.⁶

Overall, the NSDP takes a rather deterministic approach to development implying, for more disadvantaged areas, somewhat limiting development outcomes - as distinct from encouraging proactive problem solving strategies to overcome negative pre-conditions, including institutional inadequacy – and poverty. Much of the development quest has been dominated by the search for project opportunity, frequently turning attention away from thorough analysis of the development needs and priorities of any given area. The economic development theme is generally reflected in the discourse at regional and local levels – and coincides with a shift in policy thinking from poverty alleviation

⁶ The IDP Nerve Centre - http://www.idp.org.za/content_CSIR/news/News_NSDP.html

(pro-poor) to favour pro-growth initiatives. The principle of development corridors, on the other hand, aimed at spreading the positive effects of development, seems to be less frequently applied (although a key tenet of the AEDA Amathole District Strategy), since much of the public and private investment continues to be concentrated in areas considered to have economic growth potential – with little forethought to the consequences in terms of balanced development.

It is not altogether clear how compliance with the NSDP is monitored other than through periodic Growth and Development Summits as well as reflective sessions often convened through the aegis of the Office of the Premier, the efficacy of which mechanisms perhaps need some attention. Nevertheless, as a policy guiding framework for local economic development, the broad general principles which it sets out seem to have influenced the overall course during these last years. In particular, the NSDP has laid the ground rules for the interlocking development planning process across the three spheres of government – national, provincial municipality, in consonance with the cooperative governance principle encouraged in both the Constitution of the Republic and the Intergovernmental Regulatory (IGR) framework.

3.1.2 Department of Provincial and Local Government – National Framework for Local Economic Development in South Africa 2006 - [Policy Guidelines for Implementing Local Economic Development in South Africa 2005]

The DPLG policy Guidelines emphasise the objectives of Local Economic Development as “economic growth and poverty alleviation”. Much of the focus is on enterprise development – in particular, the promotion of SMMEs and, in that context, also upon broad based black economic empowerment as a means to address sources of inequality and to encourage economic growth. In addition, the Guidelines draw attention to the importance of promoting local competitive advantage – including the efforts of the local authorities and other stakeholders in making the locality more attractive to investors.

In a critique of the Guidelines, Hindson and Vicente, highlight the omission of “community economic development” as a focal point for local action⁷. They argue, as we would, for its place as an essential element of the LED mix, particularly given the stated over-arching policy priority in favour of poverty eradication. The 2006 National Framework for LED in SA (Document for Discussion) includes the “Sustainable Developmental Community Investment Programme” as one of its four key strategies. However, it goes on to clarify that “this SDCIP is not about community economic development in the traditional sense. It concerns linking communities into the mainstream of the economy as critical players through their own organisation, supported by innovative methods of delivering government expenditure.” What is not clear is how communities, dis-empowered and marginalised from the “mainstream of the economy”, are to become “critical players” in a competitive market environment. The apparent policy confusion explains much of the ambiguity and uncertainty encountered at local level during the review. It is clear that many small scale projects are being excluded from consideration by agencies and project funders, because they are seen as pro-poor and associated with “old style LED”, notwithstanding their potential as stepping stones towards development, built upon positive local experience. Within appropriate policy and programme frameworks, including programmes to stimulate social enterprise, the social economy and intermediate labour markets, such projects can enable communities “to graduate” over time into this mainstream, however it might be defined in the context of the Eastern Cape.

⁷ *Whither LED in South Africa? – A Commentary on the Policy Guidelines for Implementing Local Economic Development in South Africa (2005) – Doug Hindson and Valerie Vicente*

Despite the repeated emphasis upon job creation and the declared objective of integrating South Africa's fragmented labour market, the Guidelines contain little indication or advice to local groups to suggest that local economic development strategies could/should also include actions to improve the performance of the local labour market. Locally based partnerships for employment can be very effective in designing and undertaking developmental, innovative and often experimental work within different segments of the local labour market to promote employability, capacity for self-employment, ability to adapt to changing circumstances, life long learning. A more integrated and dynamic local labour market is not only critical to the growth and competitiveness of the local economy – but the experience generated through local action can provide valuable insights for national employment and development policy makers in designing more innovative and active labour market measures.

The Guidelines set out the institutional arrangements for local economic development. However, these are primarily focussed on state and local government roles, responsibilities and relationships. They do not clarify the roles of other actors – or develop models (eg partnerships) which might enable local authorities to mobilise those stakeholders.

3.1.3 Provincial Growth and Development Strategy - 2004-2014

The Eastern Cape Provincial Growth and Development Strategy was prepared and approved by the Provincial Government in 2003 following consultation with “public entities, municipalities, business, labour, NGOs, and higher education institutions”⁸. The UNDP and DFID provided technical assistance. It represents a broad statement of strategic intent and differs from previous plans which were more sectorally focussed. Despite the absence of comprehensive and reliable socio-economic statistics for the Province, the SWOT analysis paints a grim picture of the challenges faced – in terms of the extent of illiteracy, unemployment, underemployment, labour market fragmentation, the failure of macro-economic strategies to create the jobs needed, public finance constraints, the economic effects of HIV/AIDS and the legacy of apartheid.

The PGDP goes on to outline three broad strategic objectives as follows:

- Systematic eradication of poverty through a holistic, integrated and multi-dimensional approach to pro-poor programming.
- Agrarian transformation and strengthening of household food security.
- Consolidation, development and diversification of the manufacturing base and tourism potential.

Each of the above are supported by three foundation objectives:

- Infrastructure development.
- Human resource development.
- Public sector and institutional transformation.

This is essentially a guideline document providing broad policy and project orientations – such as Community Public Private Partnerships for natural resource enterprises (trusts), the Transkei Rapid Impact Programme, expanded opportunities for processing outlets, targeting investment on the gaps in the value chain of key manufacturing sectors eg car components/services, development of the tourism product in the region, to mention but a few. Under human resources development, the types of interventions cited relate to the different levels of education and technical skills training (vital in themselves), although there is no reference to actions aimed at improving the functioning of the provincial labour market.

⁸ *Strategy Framework for Growth and Development – 2004-2014 (UNDP) – approved by the Executive Council Province of Eastern Cape – June 2003.*

The capacity of the PGDS to influence the development direction at district and local level is weakened by the absence of either a management or monitoring framework – and the lack of a committed financial plan. The Growth and Development Summit held in February 2007 provided an opportunity to review progress with social partners, refine direction and recommit for the future – but did little to firm up arrangements for implementation.

Also at provincial level, the DEDEA has in place a Strategic Plan covering the medium term budget framework (2004/5 – 2006/7) which includes its commitment to local economic development, local agencies and the promotion of the industrial development zones. It provides targets for outcomes, in some cases, cumulative job targets - in others, the numbers of enterprises set up and/or supported. The main Provincial initiative for enterprise promotion is the Eastern Cape Development Corporation which reports to the DEDEA.

3.1.4 Integrated Development Plans⁹

Sections 152 and 153 of the Constitution set out the objects and development duties of local government as part of the “developmental state”. All municipalities at district and local level are, since 2001, as required by the Municipal Systems Act to prepare, implement and keep under review a local integrated (strategic) development plan. The Constitution also affirms the principle of stakeholder consultation and the participation of local communities in the affairs of the municipality. The guidelines for the preparation of the IDP specify that the Plans should include the main functions for which local government (district and local) are responsible in the fields of both service delivery and development. The plans are prepared on a five year perspective – and subject to an annual review.

The IDP is a central part of the planning cycle and process for local government. The stated strategic policy focus essentially covers poverty eradication and creating jobs and, in most cases, the aims include economic and infrastructural development as well as tackling HIV/AIDS. Nevertheless, by far the greater part of the IDP relates to the business plans of the various departments in the municipality rather than serving as a strategic response to the development needs of the area. While the requirement to consult is observed, in many cases, most non-municipal respondents suggested that these were essentially information-giving exercises rather than a two-way exchange of perspectives, experience and realities. Several interviewees from other agencies as well some from local government reported that the finished IDP was at best a reference and publicity document rather than a strategic management framework for local development. As indicated above, there is some evidence that project proposals are trawled for inclusion in the course of annual reviews, guaranteeing “IDP compliance” (“ticking the box”) when seeking funding from state or other public agencies. Other respondents suggest that the search for good “bankable” projects, sometimes leads to “copy cat” initiatives across different local authority areas.

Local economic development is usually, but not always, included in the IDPs. However, it is the subject of a very brief description of activities undertaken or planned, very thin on strategy. References to the management framework for LED are unclear. Where agencies exist, the division of competences and the inter-relationships between the Agency and the LED Unit of the District or Local Municipality are poorly defined. What is evident is that the IDP falls short in terms of representing a coherent strategic planning exercise prioritized on the basis of a thorough analysis of real development needs – or as a basis for managed development.

Generally speaking, most IDPs are lengthy, complex and difficult to follow – even as reference material. They are not suitable as management and operational frameworks. There must be an argument for separating municipal service delivery and management development planning from the local developmental aspect. (Part of the problem seems to stem from the widespread belief that government, including local government can and should take full responsibility for development as well as the provision of basic and essential services.) Despite a strongly stated commitment to

9 *CHAPTER 5 OF THE LOCAL GOVERNMENT MUNICIPAL SYSTEMS ACT 32 OF 2000.*

consult, many of the policy and strategy documents seem to suggest that “government knows best”. One government document states, for example, that the first LED objective is “to re-align the efforts of the non-government entities active in LED into a shared direction of the LED drive”. In such circumstances, it is hardly surprising that there is frequently a climate of institutional rivalry – and little indication of the networking, partnerships and social capital that one would associate with effective local development. Nor indeed, does it leave much space for bottom-up initiative.

3.1.5 Concluding Remarks on LED Policy Context

Policy alignment, from central to local, can be traced through a hierarchy of policy statements, plans and strategies. There is a broad commonality in the issues addressed, concepts espoused and language used at each level. However, it is more difficult to discern the coherence between policy frameworks, programmes and projects across the different spheres of decision making – in terms of their institutional roles and relationships, funding flows and actions undertaken at local level. There are, at best, only fairly tenuous connections between the policy aims of the Growth and Development Strategies (at national and provincial level), the Integrated Development Plans and the projects finally supported – whether pro-growth and/or pro-poor. While local project identification (for LEDAs and other agencies) will start with the review of the projects listed in the IDP, these are frequently poorly developed – and subsequently passed over in favour of more advanced projects perceived as having high impact, greater immediate visibility. Funding decisions are more often based upon the sectoral priorities of funding Departments and agencies – and upon the internal logic of the proposal - rather than addressing needs identified locally and strategic objectives of the local area in question. An IDP project tick in the checklist is worth bonus points – but not much more! But then, that comment raises questions in relation to the preparation, management – and very role - of the IDP as a strategic framework for local development?

3.2 Understanding the legislative context

The main elements of the legislation most influencing the role and operation of local economic development agencies are listed below. This is not exhaustive. A fuller list of relevant legal acts is set out in table form in Annex 3 with brief commentary on their relevance to local economic development and the operation of the Local Economic Development Agencies.

- CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA 1996
- MUNICIPAL FINANCE MANAGEMENT ACT xxxxx
- MUNICIPAL STRUCTURES ACT 117 OF 1998
- MUNICIPAL SYSTEMS ACT 32 OF 2000
- MUNICIPAL DEMARCATION ACT 27 OF 1998
- RELEVANT REGULATIONS PUBLISHED BY THE MINISTER
- COMPANIES ACT

3.2.1 Constitution Of The Republic Of South Africa 1996

This statute is the ultimate framework for local economic development planning, implementation and accountability, providing local government with its mandate and placing obligations squarely on the Municipalities at the hub of the development process - and their entities. Article 152 (of Chapter 7) sets out the broad objects of local government as

- (a) To provide democratic and accountable government for local communities;
- (b) To ensure the provision of services to communities in a sustainable manner;
- (c) To promote social and economic development;
- (d) To promote a safe and healthy environment;
- (e) To encourage the involvement of communities and community organisations in the matters of local government.

Sub section 2 of the same article stresses the obligations of local government

- to strive within its financial and administrative capacity to achieve the objects set out in subsection 1 above. Article 153 goes further to locate the work of the local authority within the “developmental state”, emphasising that a municipality must:
- (a) structure and manage its administration and 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.

Chapter 13 of the Constitution, particularly sections 215 and 216 are also critical since they deal with financial management and accountability, laying down the broad requirements for municipalities and their entities. In particular, these sections highlight the need for transparency in budget and budgeting processes, as well as uniform treasury norms and standards, to be set out in more detail in the later Municipal Finance Management Act.

3.2.2 Municipal Finance Management Act 56/2003

The Act promotes co-operative governance between the spheres of government and strengthens the link between planning and budgeting. It deals with all the aspects of public financial management for local government, including the borrowing powers of municipalities and the relationships with own entities. The MFMA also forms an integral part of the broader reforms outlined in the 1998 White Paper on Local Government.

The MFMA came into force on the 1st of July 2004. Some of the agencies had already been established at that time. As a direct consequence, these agencies have found themselves having to alter their legal form and operating systems. In some circumstances, the agencies had established projects with the communities and had included themselves as shareholders within the projects. In other cases, the agencies were and (some) still funding projects and directly managing such projects themselves. Parent municipalities viewed the agencies as an implementing agent rather than an organisation to formulate policies whereas the agencies viewed themselves, to a large extent as both. Most agencies established prior to the introduction of the Act were formed pre-dominantly as section 21 Companies governed by the Companies Act. The MFMA and the Municipal Structures Act (MSA) now requires that the agencies be one of

- a Private company, or
- a service utility or
- a multi jurisdictional utility.

It was apparent from the interviews that there is a need for clearer interpretation of the new requirements and the manner and procedure that must be undertaken to facilitate the transition into one of the three entities approved.

The Act aims to provide sound sustainable management for the financial affairs of municipalities. Further, the Act establishes norms and standards for local spheres of government, modernising budget, accounting and financial management practices. It also aims to put in place a sound financial governance framework by clarifying and separating the roles and responsibilities of the council, mayor and officials. The MFMA also forms an integral part of the broader reform package for local government, as outlined in the 1998 White Paper on Local Government. In addition, the Act allocates an important role of overseeing on the councillors; hence, councillors are prohibited from serving on tender committees and boards of municipal entities.¹⁰

Section 90 of the MFMA deals with “disposal of assets”. This is another issue which has been identified as constraining the effectiveness of the LEDAs. The majority of the agencies were of the opinion that the prohibition from disposing of capital assets was excessive. In particular, the requirement that, an agency must obtain council approval before disposing of any capital assets was specifically mentioned. From the interviews it remained unclear when and under what circumstances this had arisen. Indeed the Act’s provisions in limiting the right to so dispose seem reasonable and necessary as long as the agencies are set up as entities of the local authority.

Section 111 of the Act deals with public procurement (giving effect to section 217 of the Constitution and part 1 of chapter 2 of the regulations). It makes clear that the municipal entity must comply with the parent municipality’s procurement policies. There is a sense among some of the agencies that these provisions are restrictive, introduce bureaucratic red tape and cause lengthy delays in project development and management. However, this viewpoint is not shared by all agencies.

Yet another issue relates to investments¹¹. The Regulations¹² giving effect to Section 71 of the MFMA specify the types of authorised investment for public bodies, including municipal entities, and require these to be reported. The regulations provide that an agency can hold a range of investments which does not include equity sharing. Authorised investments are listed in Annex Most of the agencies argue that this restriction frustrates the very rationale for setting up agencies in the first instance, which was their greater freedom to operate in the market and to hold a wider portfolio of investments than permissible for the parent municipality. However, this view was contested by several respondents from local government, who also emphasised that the role of the agency was to implement the municipality’s LED policy rather than act in their own interests. Nevertheless, prior to the introduction of the MFMA,¹³ the first LEDAs were able to become shareholders. Under the Act, these are able to retain such shares¹⁴.

The agency’s ability to enter into public-private partnerships¹⁵ is curtailed by the Regulations. Some agencies report that this limitation has blocked certain projects that they would have liked to be involved in. However, the agencies can make use of rule 10 which states that –

- The entity may be a partner to such partnership initiated, procured or entered into by the parent municipality.¹⁶

From the point of view of the parent municipality the legislation is essential to ensure adequate oversight. However, while the agencies cannot, on their own, enter into such partnerships, they may do so with their parent municipality. It is probable that the reason behind this prohibition is simply to ensure that the agency enters into such partnerships with the knowledge and approval of the parent municipality. In fact some municipal officials were of the opinion that the agencies can assist communities to establish trusts and co-operatives that may then enter into the public private partnerships with the parent municipality and the agencies to achieve specific goals. This assistance may also be provided without the agencies becoming a shareholder of the community project.

11 REGULATIONS REGARDING INVESTMENTS IN TERMS OF GAZETTE NO. 27431 OF 2005

12 Regulation 308 Local Government: Municipal Finance Management Act (56/2003):

Municipal Investment Regulations page 3 of Gazette number 3 27431

13 REGULATION 13 GAZETTE NUMBER 27431 OF APRIL 2005

14 In terms of section 93K no entity may establish a company, or acquire any interest in a company.

15 Regulation 309 of the : Municipal Public-Private Partnership Regulations Gazette number 27431

16 GAZETTE NUMBER 27431

Most of the agencies interviewed referred to limitations and challenges in respect of their reporting requirements as stipulated by various statutes. Several were of the view that reporting is onerous and too frequent. Some agencies found the MFMA requirements tended to stretch the time frames regarding authorisations by councils and felt that this discipline was delaying their projects. They argue that this creates a backlog as councils only sit quarterly. Other agencies, however, stated that they had set up systems to ensure compliance with the Act and had no significant problems with the reporting aspects. Their projects were often fast tracked and in some cases special council meetings were convened to deal with urgent issues. A number of those interviewed suggested that there is a need for ongoing training on the MFMA and its impact on local economic development agencies for staff, management and policy makers working in the local economic development field.

3.2.4 Municipal Systems Act (32/2000) as amended by Municipal Systems Amendment Act, 2003 (Act No. 44/2003)

The Municipal Systems Act¹⁷ as amended (MSA) changed the legal environment in which the LEDAs operate. Prior to its enactment, municipalities used various arrangements to deliver services and manage functions such as economic development. These included trusts, section 21 companies and private companies. As stated above in 3.2.2, the Act now requires that the agencies are incorporated as a Private company, or a service utility or a multi jurisdictional utility. All 3 types are deemed municipal entities by virtue of the Municipal Systems Act as amended. It is a requirement for municipalities to review their existing structures with a view to either converting them to one of the three municipal entity options or winding them up if they are no longer required. A review would cover such things as the appropriateness of governance structures to provide effective municipal oversight, accountability and transparency. The service utility legal form is more aligned to essential service delivery and single service provision (eg water, housing, electricity) rather than economic development per se, especially if this function is to take on a more integrated form. The most likely option therefore for LEDAs in that wider socio-economic sense, is to create companies within the framework of the Companies Act. However, the change has other consequences including those mentioned above – and possibly future tax implications.

In the future the municipalities may wish to consider the incorporation of companies wherein they are co-shareholders with other municipalities or provincial or national government.¹⁸ The Act stipulates that the municipality may also incorporate and share shareholding with an investor other than a municipality, provincial government or national government. A company so incorporated would, however, need to ensure that the effective control vests in the municipality; or another municipality; or that municipality and another municipality collectively¹⁹. Such “multi jurisdictional private companies” could be an option for the legal form of agencies operating in the field of integrated local development across a number of local municipalities.

Several respondents suggested the need for interpretation of the new requirements and the manner and procedure that must be undertaken to facilitate the transition into one of the three entities approved.

¹⁷ Section 86 B

¹⁸ Section 86 C of the Municipal Systems Act 44 of 2003

¹⁹ Section 86C (2)c

3.3 Institutional Framework for LED

During the period of the research, it was not possible to carry out any meaningful analysis of the institutional framework for local economic development – other than to identify those institutions most closely involved – and those which seem to be absent from the debate. Given its critical territorial (place and people) focus, local economic development transcends the traditional sectoral approach to public policy. To put a coherent integrated policy framework in place will require the joined-up effort of all of the institutions involved – at their respective levels of governance, decision-making and action – national, provincial, district and local.

The institutional arrangements influencing local economic development are as follows: -

- **National level (Government and para-statal)**

- **Commission of the President (Policy Coordination and Advisory Service)**

The Presidency – responsible for, among others the coordination of the NSDP, ASGI-SA and JIPSA, as well as the mass communication effort on broadcasting opportunities and sharing experience through the GCIS, can bring local development to the very centre of government and foster the necessary collaboration across departments. There is evidence of effort in this direction. At the same time, however, quasi-autonomous arrangements of priority-setting by departments do not always result in aligned objectives and action, and this will continue to prove a challenge to optimal efficiency as happens with most democratic governments.

- **Department of Provincial and Local Government**

Defines the context for local economic development, sets the guidelines and facilitates coordination between the three spheres of government. As a critical driver of LED, the DPLG can promote the spread of good LED practice across the country.

- **Department of Trade and Industry**

Responsible for economic development policy, investment promotion, industrial development, and enterprise development. There has been a significant movement to convergence between the DTI and the DPLG.

- **Industrial Development Corporation**

National agency for industrial development, investment promotion, enterprise development. Adopted LED as a measure to stimulate economic activity and endogenous potential in areas less likely to benefit from inward investment or traditional economic development policies and practices. Sponsor of 22 LEDAS currently.

- **Small Enterprise Development Agency**

Agency within the Department of Trade and Industry which is responsible for national measures in favour of small and medium sized enterprises. Has branch offices in most districts providing a range of services to small business.

- **Department of Environmental Affairs and Tourism**

The national programmes for the protection of the environment and for tourism development provides much of the grant support sought after by local economic development agencies. However, it does not seem centrally involved in the policy debate around LED.

- **(Department of Agriculture)**

Potentially a major player in local economic development through a shift in policy to include integrated area-based local development to diversify the rural economy. Little evidence of involvement in LED policy.

- **(Department of Labour)**

A critical but absent actor in local economic development. As a result, there has been little or no focus on local action within the labour market. The participation of the department is mostly indirect, and the impact therefore not easy to determine.

- **24 SETAs**

While these may offer a wide range of training opportunities for people in work and those with good employment prospects, their sectoral focus makes it more difficult to develop a more pro-active approach within a fragmented, dysfunctional labour market.

- o **Development Bank of South Africa**

A significant source of funding for local economic development. The DBSA has played a facilitative role in promoting the debate around local economic development. Lately the DBSA has also moved into training and capacity-building for LED.

- **Provincial level**

- o **Provincial Executive Council and Legislature;**

responsible for policy legislation and government programmes' implementation oversight.

- o **Department of Local Government and Traditional Affairs;**

chiefly responsible for facilitating the development of local institutional capability for LED, and supporting municipalities in their LED enabling endeavours.

- o **Department of Economic Development and Environmental Affairs;**

responsible for leading on the determination of economic development policy in the province, as well as public entities directly involved in enterprise development and support.

- **Eastern Cape Development Corporation;**

responsible for enterprise promotion and support.

- o **Department of Agriculture;**

at the core of agrarian transformation and therefore a critical player in the economic fortunes of the rural economy.

- o **Provincial office of the Department of Labour.**

Much work has been done over the past year to determine and develop an integrative approach to LED facilitation and support by the DLGTA and DEDEA. The Department of Agriculture has most recently been incorporated into this effort towards convergence. The provincial office of the Department of Labour has, however, remained outside of this endeavour, following a similar pattern at the national level.

- **Metro/District**

- o District Municipal Council
- o Socio-economic Planning and Development Department (or similar) in DM
 - LED Unit
- o **Local economic development agencies** (section 21 or PTY) NM Metro Development Agency (Nelson Mandela Bay Development Agency); Amathole Economic Development Agency, OR Tambo Ntinga Development Agency
- o Industrial Development Zones (Coega and East London)
- o SEDA branch offices (eg ORTEDA)
- o Regional offices of Provincial Government (DEDEA etc)

- **Local**

- o Local Municipal Council
- o Socio-economic Planning and Development Department (or similar) in LM, depending upon size and resources.
 - LED Unit
- o Local economic development agencies (section 21 or PTY) in Buffalo City, Nkonkobe Development Agency, Blue Crane Road Development Agency, Kouga Development Agency, Port St John's Development Agency.
- o Industrial Development Zone
- o SEDA local branch offices

4.0 The role of LEDAs in local economic development – policy, institutional and legal

The following section on the role, impact and potential of the LEDAs within the local development process reflects the discussions with interested stakeholders from different areas and the perspectives of a range of writers in the debate as well as our own observations and experience of local economic development and agencies in other situations.

4.1 The emergence of the LEDAs as Development Actors in South Africa/ Eastern Cape

In contrast to the long history of local action for economic development in South Africa²⁰, the emergence of the Local Economic Development Agency (LEDA) is a relatively recent phenomenon. The first generation of LEDAs²¹ drew on the practice of UNDP/UNOPS in propagating specialist bodies bringing together a range of development skills and experience to stimulate local economic development in regions affected by significant social, economic and often political or civil disruption. The experiment (Small Enterprise and Human Development Programme) was sponsored jointly by the Governments of South Africa and Italy – and a number of pilot agencies were established in different parts of the country, including one in Eastern Cape, OR Tambo (now known as ORTEDA, to be distinguished from OR Tambo Ntinga). These were intended in part as a response to the perceived shortage of development skills, the limited number of non-government organisations, resource constraints, lack of strategic guidance, facilitation and role models identified at local level. The SEHD Programme had as its objective “the creation of permanent jobs for the most disadvantaged population, through the promotion of, and support to micro, small and medium enterprises in the framework of sustainable local economic development”. The programme ran from 1998-2004. Several of the LEDAs set up in that context, have now been taken over as local branch offices by the Small Enterprises Development Agency (part of DTI), including ORTEDA. They continue to provide a range of services to local small businesses and are financed directly by central government and through fees for services provided.

In a separate initiative, the Industrial Development Corporation, (IDC, also an arm of the Department of Trade and Industry), supported the creation of a second group of local development entities at both district and local level. Up to the present time, 22 IDC agencies have been established²². The IDC model, drawn from international experiences, promotes the agency, as an entity, “owned by the municipalitywith public interest and accountability but using private sector tools and strategies” to realise the development potential of the area. Simply stated, the agencies are presented as a “focussed and dedicated” mechanism for economic development. By bringing the necessary professional skills and single-mindedness to the development task, the agencies, it is implied, can take over an important part of the “developmental” role of local government.

Their business acumen and aptitude for spotting and developing opportunity, can, not only strengthen links with the private sector as a key development actor, but also assist the local authority in realising better value from underused/ unused public assets.

“The rationale for the establishment of an agency is to create development within a designated area, leveraging existing assets to attract investment. While an agency falls under the local authority, it operates as a separate entity, allowing a municipality to devote its energies to concerns such as providing basic services.”²³

²⁰ LED _ A Review Assessment of its Current Status in South Africa - Prof. Etienne Nel – Urban Studies - 2001

²¹ Local Economic Development Agencies in South Africa – Six Years Later (2005) Anmar Pretorius and Derick Blaauw

²² IDC – Supporting Regional Development

²³ The Herald, 24 December 2004

The basic package offered by the IDC to district and local municipalities includes start-up financial and technical support for an agency, as an entity of the local authority, for a period of three years. Thereafter, the local authority will be responsible for operational and running costs. Future IDC support will only apply to suitable project proposals, through its normal financing (loan) channels. A total of eight (8) LEDAs are currently active in Eastern Cape:- three (3) at district/metro level and five (5) at local level. Plans for others are under serious consideration, as, for example, in Ukhahlamba. However, there are two other agencies in the region, the purpose of which is described as “social and economic development” according to the National Treasury in June 2006²⁴. These are UDDI in Nelson Mandela Metro (funding from District grant) and Mthombo Sediba Development Agency (own finances) in Maletswai Municipality. All of the Agencies in the Eastern Cape, with the exception of the Amathole Economic Development Agency, are cited as Section 21 companies. The AEDA is established as a Private company, wholly owned by Amathole District Municipality.

Compared with other Provinces, the Eastern Cape has the highest proportion of agencies dealing with “integrated economic development, economic development, socio-economic development, smme development”. Most of the entities listed in the other provinces are providing a single service, eg water, electricity, social housing, tourism. Out of 44 listed entities, for example, in Gauteng, only one, Johannesburg Development Agency, is described as “economic development initiatives. There are three such agencies in KwaZulu-Natal – Small Enterprise Development and Training Agency Ethekwini, Hibiscus Coast Development Agency, Hibiscus Business Support Centre – and Enterprise Ilembe which is described as a “regional development agency”.

4.2 LEDAs making an impact

The Agencies have become key players in the overall development process, within the relatively short time that they have been in existence (in the Eastern Cape) - some obviously more effective than others. They have contributed substantially to the development capacity in most of the regions and local areas where they are present, having been able to recruit highly qualified, skilled, experienced and motivated professionals into the local development field. Local authority officials and managers working alongside the agencies, have, in many circumstances, been able to acquire valuable experience, new business management methods and have gained access to networks, previously outside of the development and governance context. By adopting a dedicated development focus, the more effective agencies have been able to accelerate the transformation process, identifying underused assets with development potential, brokering opportunities, leveraging in necessary funds often from new, previously untapped, sources.

Some of these projects are having catalytic effect, eg regeneration in the Nelson Mandela Bay business area is generating further investment and improving the attractiveness of the area for entrepreneurs. Others, outside the more prosperous cities, are having to work hard to identify sustainable opportunities (small towns, village renewal, tourism and traditions). Some of them are proving capable of shaping strategy from lessons learned from various ongoing experiences, often on the basis of trial and error. The agencies have the potential to deliver innovation, as evident in some of the projects brought to fulfilment (as in the case of environmental and tourism projects in Port St John’s, making use of programmes such as the Extended Public Works Programme). On the other hand, a number of agencies are already facing significant resource constraints and are increasingly dependent upon grant funding – with tightly prescribed conditions – making it all the more difficult to maintain their initial strategic focus and flexibility for innovation.

24 *National Treasury Local Government Database 2006*

4.3 The LEDAs and the Local Development Challenge

Overall, while it seems unlikely that the agency model will spread to every local municipality area (lack of resources in many cases), and accepting the probability of some failures, it seems clear that the agencies will have a critical role to play in local economic development in Eastern Cape in the future. However, what that role will be is open to further discussion around the development challenge – and may take quite different forms in different localities at different levels of governance. Before considering possible future roles, it is worth exploring some other aspects of the impact of the agencies on the local development process.

Their high profile advocacy of an “it’s the economy, stupid” approach to development has had the effect, as we have seen earlier, of brushing aside the micro-scale, “chicken-run”-type community based projects, which, in the past, were often supported by civil society or non-government organisations and financed by the international donor community. Many of these were poorly planned, based upon “good ideas” rather than emerging from a clear understanding of needs – and badly managed. High-impact projects, promising significant job creation, on the other hand, have become the mantra of both development agency and the local authority in an effort to produce tangible and politically attractive outcomes. While we have not had the opportunity to assess the number or quality of jobs created through high impact projects to date, our initial impressions would point to, at best, modest results across the Eastern Cape. Many of the jobs created (hundreds rather than thousands) are likely to be temporary, linked to the project cycle, eg construction jobs for regeneration projects - often in basic skills areas – eg public works schemes, road maintenance, maize planting and harvesting. Some of our respondents, in fact, contrasted these results with the continuing economic activity generated by a number of earlier smaller scale community economic projects. There is a concern that many so-called high impact projects suffer from the same lack of project planning and management skills as may have blighted some community enterprise projects – often starting from the “good idea” rather than any sound analysis of the situation.

4.4 Balanced Development?

The debate around pro-poor and pro-growth, in part fuelled by the agencies, is almost one of ideological false choice – and has little real relevance in the development context of many local areas of the Eastern Cape. It does not make sense to exclude community based economic development in areas where the only living asset is the people of the area – their local knowledge, skills, intelligence and traditions – their motivation for a better life. Strategically focussed community economic development opportunities (as an integral part of a broader package) can lay the essential groundwork – and linking ladders - for marginalised and excluded communities to move towards the market economy.

Nor can development in these disadvantaged areas be ignored. By prioritising investment in growth business centres and industrial development zones, some LEDAs and local authorities may create jobs in the short term. However, if this is at the cost of placing the regeneration of more remote and isolated rural communities “on the long finger”, there is a real danger of creating deeper imbalances, provoking further rural depopulation and adding to the service burden of municipalities struggling already to meet basic delivery standards. The logic for this type of development approach is very much rooted in national policies for development – and the LEDAs (and LED Units) are simply following those guidelines, perhaps with a lessened awareness of the critical role they have in facilitating a rather dialogical ‘top-down, bottom-up’ engagement as mentioned earlier in this document.

A further weakness in the economic development asset model espoused by the agencies – and national policy - is the neglect of the local labour market as a potential development feature – albeit in need of considerable restructuring. There is little evidence at local level of any active measures to begin to work on the supply side of the local development equation, other than the public works schemes which generate temporary employment – but add little to improve long-term employability. Not only can local strategic actions for employment add significantly to the development potential of the area – but failure to address local labour market issues will inevitably frustrate longer term progress.

There is a substantial body of local development experience in other parts of the world linked to activating and integrating the local labour market. Many actions complement and add value to national programmes and schemes – such as local outreach programmes with local employers and workers to promote increased competitiveness through upskilling and life-long-learning among those currently in low skill jobs. Local employment development can introduce effective and locally innovative approaches to dealing with long-term unemployment and with those who lack the basic skills to be employed (eg intermediate labour markets, social economy etc). Similarly, local employment initiatives frequently include actions to link schools to the world of work – and to create a local culture favourable to the spread of enterprise and “can-do”.

We note that the Department of Labour is making significant attempts to address these issues. However, as currently configured, the local economic development paradigm is incomplete, lacking connection with the strategy of the Department of Labour. The Department of Education is totally absent from mention of LED endeavour.

As a guiding framework for ongoing development, the LED paradigm, as currently conceived and implemented, runs the risk of deepening existing imbalances. If the LEDAs are to pursue an ambition to lead the development process locally, they would need to broaden their scope - and their skills base considerably. On the other hand, as “economic development” specialists, (eg urban regeneration, enterprise development) the agencies can continue to provide a highly valuable specialist perspective and input to the wider strategic effort, within a coordinated framework. However, in the overall context of the policy debate, there is a need to dismantle and re-assemble the lens, to widen and to sharpen the focus - to take account of the diversity of the development challenge and potential facing “local South Africa”.

5.0 LEDAs, Local Government and the Developmental State

5.1 LEDAs and Local Government Working Together for Local Development

It is impossible to speak of LEDAs without referring to their relationship with parent local authorities. The Terms of Reference for this assignment explicitly refer to the tension which is reported to exist between some host municipalities and agencies. During the course of the enquiry, as might be expected, we encountered a variety of situations. In several areas, both agency and local authority reported clarity and consensus around the remit and mandate of the agency. In such circumstances, the requirements and contingencies of the relationship (approvals and reporting) were built into the work programme of the agency – and consequently had minimal effect on timing and outputs. Where the agency’s remit has been more difficult to define, by geography, by sector or by strategic intent, the scope for friction between municipality and agency is obviously widened. Management in one agency described their function as “strategic and spatial development” while the municipal LED Unit dealt with “socio-economic development issues”. In other cases, the agency structure (often sectoral) is mirrored in the local government LED Unit – for example, each has an agricultural, a tourism, a forestry and a SMME unit (and, where resources permit, these are staffed by a sectoral specialist). Some agencies can trade on strong political support and championship and tend more or less to bypass formal linkages.

Confusion over the division of competence leads to expressions of rivalry (for example, “idea swiping” was mentioned by some), and there is considerable potential for wasted overlap or inertia. Performance measurement regimes and widely differential rewards systems inevitably raise the competitive stakes and make the situation more difficult to manage. In some cases, it seems quite likely that the close political patronage enjoyed by the agency, can be used to by-pass executive departments in the municipality, further straining coordination and communication at operational level. Given the likelihood of a breakdown in trust in such conditions, seeking approval and accountability become

bureaucratic and problematic – reducing the effectiveness of both agency and municipality. In these circumstances, it is easy to see how the letter of the law can be applied in a way which has more to do with control than with enabling.

5.2 Constraints on Action or Frameworks for Accountability

Nevertheless, there are several aspects of the legal framework that merit closer attention. In the first instance, the legal form of the LEDAs has changed since the first agencies were established in the early years of this decade – from Section 21 companies to PTY companies, following the introduction of the Municipal Financial Management Act²⁵ in 2003. The immediate implication in terms of their field and mode of operation has been to tie the agencies into the local government decision making and reporting systems as well as timeframes. These are often seen as slow and cumbersome, particularly in the context of project development involving private sector partners. It has been suggested that the application of the Act to the agencies sets them up as “parallel municipalities”²⁶ – and blunts the very flexibility and responsiveness that they are expected to bring to the development process. However, as stated earlier, several senior agency managers reported little substantive impediment in their dealings with investors and developers. They suggested in fact that the Act facilitated a more streamlined and structured relationship between the agency and the host authority – providing a basis for transparency, accountability and mutual confidence.

Another criticism of the MFMA as a constraint on the development agencies relates to the restrictions imposed on them as “municipal entities” in acquiring equity in development projects, making it more difficult for them to become self-sufficient over time. Once again, agency managers are divided on this issue – some of them arguing that the essential role of the agency is to stimulate and initiate economic development projects and then move on - rather than to become involved in overseeing ongoing businesses. They point to the opportunities for raising income through the provision of professional services to businesses and the public sector locally. On the other hand, there would seem to be a case for increasing the scope for agencies to participate as equity sharing partners in innovative venture capital projects in certain situations in the future – both as a means to consolidate the investment – and to draw increased public benefit. Similar concerns are raised in connection with limitations on agencies acquiring their own property asset base. Local enterprise and economic development agencies (independent of local government) in many parts of Europe have over the last twenty years built a substantial portfolio of managed assets, boosting their credibility as development partners and providing significant own resources for upcoming projects. In the South African context, senior managers in several agencies pointed to the potential to raise development capital on the basis of long-term leases acquired on municipal assets.

25 [*The Municipal Finance Management Act 56 of 2003 \(MFMA\) \(PDF\)*](#)

26 *Institutional Arrangements for the Implementation of Economic Development - Presentation by Phila Xuza - 2005*

These and other dilemmas encountered in the day to day relationships between agency, local authority and other actors, inevitably give rise to questions in relation to the appropriate institutional structure and location for the local economic development agency. In particular, there are questions around whether the agency should be “an entity of local government”, a free standing public body, or more closely linked to provincial or national government? – whether the agency should be located at district or local level? - is there a natural division of labour in the roles of the agencies at local and district level?

5.3 Different LEDAs – Different Mandates

The local economic development agency concept put into practice by the IDC has been somewhat experimental and, as we have seen, includes a range of different models for different situations. Their central function, nevertheless, relates to the promotion of enterprise – either directly or by improving the attractiveness of the area for enterprise development. Another core feature of the concept, for both IDC and the municipalities, has been the increased potential for the agency to bring redundant or underused municipal assets into more productive use – releasing additional resources for local economic development. In this respect, the LEDAs set up at local municipality level have access to a greater asset base than exists at district level, given the local municipality’s ownership of a more substantial property portfolio.

5.3.1 Locally based Agencies

Viewed from that angle, those agencies set up at local level, depending upon the value of the assets in question, can potentially leverage more substantial resources into the local economy than is possible at district level. In particular, the local resources available for development in more prosperous urban areas such as Nelson Mandela Bay or Buffalo City will far exceed those within reach of Cacadu or Amathole District Municipalities – and consequently their local economic development agencies.

At local level, where the mandate for local development is clear-cut and uncontested, the relationship between Agency and local authority does not appear to get in the way of the development business. Those LEDAs operating in well defined urban renewal (physical regeneration) contexts seem to enjoy a greater degree of operational autonomy while working in full compliance with the legal requirements of their relationship with local government. There may be space for other specialist function local economic development agencies in such areas as business development, tourism, employment and training, for example, provided, of course, there is a clear sense of purpose – and, crucially, firm commitment from the local authority.

Funding remains the critical issue – and agencies can only look forward to a secure existence in more prosperous local municipal areas which value the professional focus of the agency – and/or in situations where they can achieve a substantial degree of resource autonomy. Most of the thirty-eight local municipalities in Eastern Cape Province simply do not have the revenue base to afford a dedicated agency. Those few which can are also more likely to have a skilled and competent LED Unit within the municipality. The unequal spread of LEDAs can be a further factor in the already very uneven patterns of development across the Province. Furthermore, the spread of more specialist agencies without action to strengthen the institutional capacity at local level to coordinate the development process, is likely to lead to a degree of confusion and wasted effort.

5.3.2 Agencies based at District Level.

District level development agencies potentially have a substantially and qualitatively different role to play. However, the development model most frequently applied by district LEDAs, in keeping with their overall policy orientation, relates to identification and realisation of enterprise and business development projects. District Agencies, ie, Amathole

and OR Tambo Ntinga, have sought to add value by concentrating their effort on those parts of the district not served by a LEDA. The development corridor and small towns approach of Amathole Economic Development Agency is a good example of regional intent and differentiation between the Agency and the LED Unit. However, given the role assigned it in the Amathole District IPD (“the development agency will be responsible for the implementation of the LED projects”)²⁷ it may be difficult for the Agency to retain strategic direction. In that context, the scope for clear cut delegation and autonomy is probably narrower at district than is the case at local level. Not surprisingly, therefore, there is a greater concern at the opportunity for overlap and duplication between the municipality LED Unit and the Agency at district level. In such circumstances, as previously suggested, the likelihood of conflict and lack of shared purpose is considerably greater and may lead to tensions in the relationship and breakdown in trust between both, adding unnecessary complications to normal planning, implementing and reporting procedures.

Indeed, it may be appropriate to ask if the “IDC LEDA (enterprise) model” is suitable for the job to be done at district level. After all, their focus and reach should be more regional than local, more strategic than project driven. What distinguishes regional from local? Scale, obviously! Capital investment projects (eg infrastructure, investment in R&TD, large labour market programmes, strategic initiatives to improve the structure of the regional economy, etc) are likely to feature more in regional development strategies than would be the case at local level. The range of possible interventions is much greater. Many of these will be managed directly by government and public bodies at state and provincial level. One of the lessons emerging from regional development approaches in the European Union has been the need for effective oversight, management and coordination of regional development strategies and programmes. Regional Development Agencies have been established in many target regions (eg Ireland) specifically with the objective of joining up (coordinating) the development effort – rather than concentrate the focus on any one part of it. Their job has been to plan around agreed priorities, to work with the range of spending institutions to programme expenditure and interventions in the area, to liaise with those institutions throughout the spending period to ensure effective implementation, to convene regular coordination – and to monitor progress. Could the mandate of district based LEDAs be reconfigured to address such a role?

Alternatively, there has been an argument, not without some reason, given the commonality of purpose between the LEDAs and the Eastern Cape Development Corporation, for the agencies to be brought within the scope of that body. In theory they could operate as “contract entities” providing a range of specified services in keeping with the overall objective of ECDC “to facilitate and support private sector development in Eastern Cape Province”. Such a shift would certainly reinforce the enterprise development orientation of the LEDAs – and may go some distance towards removing the potential for conflict and duplication between the LEDAs and municipalities today. However, as we have argued, there are a number of shortcomings in such an approach. Most importantly, it fails to address the need for a more integrated and comprehensive understanding of local economic development by simply focussing on business development. Secondly, in a highly competitive space, crowded by resource-seeking, project focussed organisations, there is a much greater need for improved coordination, effective multi-sector management and strategic direction.

5.4 Some Scenarios for the Future?

The question is “where to from here?” The IDC, in sponsoring the establishment of this generation of LEDAs (budget commitments approved for 34 start-ups over five year period, 22 in place to date), has deliberately taken an experimental and eclectic approach to the LEDA model with a view to learning from the range of experiences generated. The agencies in place deal with a wide spectrum of development challenges – township regeneration, urban renewal, small town revitalisation and rural development – within, as we have seen, a broadly enterprise development-investment promotion framework.

²⁷ *Integrated Development Plan - Amathole District Municipality 2006-2007*

However, while the more productive use of unused public assets may well be a critical factor in the future development of those areas, it is only one factor in a complex development equation. The essence of local development, as we have attempted to convey throughout this paper, is joined-up, cross-sectoral, multi-stakeholder action to address a mess of interlocking, inter-related local needs. The definition of need and prioritisation of strategic focus in a dynamic and pluralist society cannot be the responsibility of a single executive agency, irrespective of its reputation for efficiency. Balanced strategic development requires an inclusive and participative engagement bringing together all of the stakeholders as agents, beneficiaries – sharing the consequences of the development choices made. Part of the intention behind the IDP process has been to achieve such a degree of common local ownership. However, so far, generally speaking, that initiative has not been able to tap deeply into local energies, largely because of the structure of the exercise – run more or less, as an internal planning and review process with built-in information and PR points. The combination of basic service delivery plans alongside development objectives makes the process too complex and unwieldy – and fudges the overall strategic focus. Without doubt, the ever rising challenge of meeting basic service delivery standards in a cost effective manner will test the strategic management competences of local government for years to come. Already, the major deficiencies in such areas as health, water quality, electricity are the source of local discontent which will surely command much of the attention of local government leaders, planners and programme managers over the next years.

5.4.1 Joining Up Local Economic Development

Is there then an argument for opening out the task of managing the development of the area beyond the offices of the local authority? Local development partnerships have become an increasingly familiar and successful model for generating and implementing integrated development strategies addressing priority local needs (eg. Urban area-based Partnerships or Local Action Groups in rural parts of the European Union – now mainstreamed into national policy frameworks). These are not “talking shops”, ad hoc assemblies or fora. They are formal legal entities with defined constitutional, management and organisational structures, reflecting national (and sometimes regional) differences. They have a job to do – assess local needs, agree priorities, design appropriate measures and interventions, deliver and/or delegate, manage and report. Their performance, management of resources and methods of operation are the subject of public scrutiny and control.

Obviously local government is a significant stakeholder and key partner – but not necessarily a controlling member, other than ensuring accountability for its own financial participation – and drawing the development strategy into the democratic mandate. Some local area partnerships may transcend municipal boundaries, involving representatives from two or more local authorities. Other partners include the social partners (business and labour), civil society organisations and state/parastate organisations impacting locally on the development potential of the area. In many cases, LEDAs are members of the partnership, bringing their specialist input (eg urban physical regeneration, small and medium sized enterprise promotion) into the wider local development process.

The emergence of the partnership as a vehicle for strategic local development has also given rise to a new generation of development professionals. Partnership management teams typically combine traditional development skills and experience (eg economic, employment, social inclusion, sectoral and cross-sectoral) with management acumen (ability to work both within public policy frameworks and private sector disciplines) – with the competence and expertise to facilitate working across institutional boundaries to achieve strategic goals. While project management is a core part of the team’s responsibility, strategic management skills are essential – a capacity for dealing with complexity, for designing interventions, including projects, to meet multiple objectives, to propose appropriate management and monitoring indicators, for example. Could the LEDAs undertake this role at local municipality level? Of course, but their understanding of the scope and dynamic of local economic development – as well as their skills base - would need to be substantially broadened and deepened.

5.4.2 Recasting the Development Paradigm

The development task at district level is, as we have discussed, of a qualitatively different order. Scale has to be taken into account particularly since a number of districts in the RSA (and Eastern Cape) are larger than some EU member states. The scope of the task in lagging regions is vast – typically including actions to restructure the regional economy, to improve skills levels and human capital, generally, to modernise infrastructure, to stimulate capacity for innovation, to provide good services to business and promote enterprise, to improve the quality of the local administration, to build and strengthen social capital. Such an agenda goes far beyond the reach of any one institution. Effective regional development is essentially about prioritisation, coordination, concentration of resources and well managed delivery.

Coming quickly back to earth, the reality is that there is no such agenda. Regional development, within this wider integrated sense, does not exist as part of the “developmental state”. Given the spread of development needs across all nine provinces, it becomes almost impossible to prioritise – and to muster the critical mass of resources (national, provincial, local – public and private) to be able to make a substantive difference. “Real” economic policy and public resources tend to follow the flow of private sector investment into the growth centres which can only lead to further imbalances – depopulation and further decline, on the one hand – concentration and congestion, on the other.

Nevertheless, is it conceivable within the context of the National Spatial Development Perspective to construct a policy framework which might focus the effort of national, provincial and district around the challenge of balanced regional development? And if so, what might be the role of the development agency at district level? The “corridor development approach” espoused by the NSDP has the clear objective of promoting a more even pattern of development. However, the emphasis on the economic has been translated into a more or less mono approach in many areas – focussing exclusively on attracting and developing enterprise with little attention to other factors of development. Moreover, the fairly prescriptive top-down “hi-potential” – “lo-potential” differentiation of districts and local areas – leads to a “winner takes all” outcome in terms of development investment, leaving the areas with less potential further divested, as jobseekers and potential entrepreneurs in the active economic age group seek opportunity elsewhere.

If we were to re-cast the policy paradigm – reaffirm the goal of balanced development - broaden its scope to include all the critical development factors – the NSDP could provide the national framework for bottom-up regional development. The definition of a district’s potential would be based upon a fundamental appreciation of all of the development assets of the area – as well as an understanding of the causes for persistent disadvantage and decline. The development strategy based on this analysis would set forward a comprehensive and integrated response and action plan to tackle the range of obstacles to development and growth.

5.4.3 Connecting at District Level

In such circumstances, the district based development agency could take on one of several roles. There is, of course, undoubted scope for the continued input of strong and effective organisations specialising in enterprise promotion and development. Whether these would continue to operate as “municipality entities” following the withdrawal of IDC beyond the initial three year start-up period – or develop closer links with the provincial institution for enterprise development (Eastern Cape Development Corporation) as suggested earlier – are two such options.

5.4.3.1 District Municipal Entity

The local government connection is an undoubted strength, enabling broad based reflection and consensus around the priorities. Moreover, it underpins local ownership of the work of the agency, linking it into the democratic mandate. However, in the absence of IDC subsidies, the agency will represent a further charge on municipal budgets

– which, over time, may result in reduced resources for the agency, making it more than ever dependent on outside grant finance. Most grant finance, from national and international donor institutions, is programme related and does not include provision for operational or running costs. Responding to the logic of funders (he who pays the piper calls the tune) can have the effect of driving the agency in several different directions – with consequent loss of strategic impact – as the agency tries in vain to join up the dots between the projects.

The critical consideration in this context remains the extent to which the district municipality is prepared to delegate a significant and measurable part of its “developmental” role to a dedicated agency? Much will depend upon the definition of remit, the degree and quality of supervision, the scope of operational autonomy. And on the side of the agency – there remains something of a credibility gap to be bridged before sufficient trust can be built – and a belief that it adds value to the local development effort.

5.4.3.2 Outreach of Eastern Cape Development Corporation

As for strengthening the link between the agencies and the Eastern Cape Development Corporation, not only would such a connection fit with the enterprise focus of the existing agencies, but would allow the agencies for their part to draw on the professional and technical capacities of the larger organisation. The agencies would serve as valuable local outreach points and outlets for the ECDC enabling that institution to respond better to local conditions in delivering the Province’s industrial development strategy. On the countside, there is a concern that the incorporation of the agencies into the institutions of provisional government – even at some distance – would tend to blunt their (agencies’) entrepreneurial edge.

5.4.3.3 A Shared Provincial-District Approach

An alternative approach could be for the (enterprise) development agencies, at district level, to be co-financed (establishment and running costs) by both district municipality and ECDC on the basis of an agreed formula. Such an arrangement could serve to optimise the benefits – mobilising local institutions with local knowledge – and local projects – within the broad framework of the Provincial Growth and Development Strategy/Industrial Strategy. It would also serve to share the costs – underpinning the strategic economic development focus of the agencies. The twin mandate of province and district would strengthen the potential for the agency to engage with all of the institutions involved at local level, especially in those areas which do not have a locally based agency – contributing to more balanced outcomes. Its governance structures would continue to reflect local (district) interests including social partners, business and financial community.

5.4.3.4 “Regional” Development Agency

Stepping further outside the box, into a broadened definition of development and a focus on regional, as distinct from local, issues - the agencies could conceivably take on a strategic coordination role. In this scenario, the critical function of the development agency would be to facilitate key partner institutions in the preparation and implementation of a multi-agency development strategy for the district. Its role would include - supporting the collection and interpretation of data and evidence, structuring and taking forward the strategic planning process, assisting the negotiation and agreement around funding allocations across a wide range of government and provincial programmes, coordinating and monitoring delivery, overseeing evaluation and disseminating lessons learned. Such a remit would require a wider set of skills and understanding of the development process than is currently available through the district LEDAs at this point.

6.0 Local economic development in other parts of the world

Local economic development agencies have been in existence in different forms, shapes and sizes, across many situations in the world. The next section will look at a number of models currently operational in Europe, Asia and South America. There is a special emphasis upon local development institutional models in the lagging regions of the European Union.

6.1 LEDAs in Northern Ireland

The “LEDA model” was introduced into the United Kingdom in the late 1970s as a measure to tap into local support and leadership for the economic regeneration of disadvantaged areas (eg Toxteth in Liverpool) and in Northern Ireland where civil conflict was ongoing.

In Northern Ireland, this policy shift gave rise to the emergence of two new types of locally based non-government institutions - Local Enterprise Agencies (small firms and enterprise focus) – and Community Workshops (skills and employment focus). A number of these emerged from existing civil society based institutions such as Credit Unions and strongly defined local communities. Board members drawn from those communities were invited to constitute themselves as legal entities – mainly as companies limited by guarantee (some as cooperatives in early stages – but these have since been reincorporated under company forms). In the early years, the links with local government were weak, largely as a consequence of political instability – and the agencies/workshops operated within an annual framework agreed between them and the funding Department of Economic Development in Belfast. The scope of operation was defined by Government funding programmes – eg youth training, managed workspace, micro-finance. However, as companies limited by guarantee, they have been able to acquire assets over time, increasing their stakeholding within the local economy. There are today 32 LED (enterprise) Agencies operating in the region – including many from the first generation. In addition to their range of services to businesses – new and established – many of the agencies are active members of the Local Strategic Partnerships, frequently providing management and facilitation services to the Partnership. (see example on website <http://www.newryonline.com/win/>)

6.2 Community (Training) Workshops

The evolution of the Community Workshops, set up to provide community based training at a time of high and long-term unemployment in the 1980s, is somewhat different. Following a shift in national (UK) policy towards privatisation of training provision, many of these non-profit taking ventures were bought out by larger private sector providers – raising questions locally in relation to community ownership and accountability for the disposal of publicly funded assets. Such actions, while entirely legal, are often seen as damaging to the social capital of the area.

6.3 Urban Development Corporations (UK)

Around the same time and in response to the social and economic decline of inner cities across the United Kingdom, a number of Urban Development Corporations were established to drive the regeneration process. The Urban Development Corporations (UDCs) were non-departmental public bodies which were established under the Local Government, Planning and Land Act 1980. They had a limited time frame tasked with a broad remit to

- Bring land and buildings into effective use.
- Encourage the development of existing and new industry and commerce.
- Create an attractive environment.
- Ensure that housing and social facilities are available to encourage people to live and work in the area.

The first generation of UDCs were wound up by the mid-1990s but by 2003 the Urban Development Areas were introduced on a very similar basis. One of the significant differences between first and second generation UDCs is the much closer relationship between UDC and the host local authority under the current regime. The previous UDCs

were set up by central government and reported to the Minister of the Environment and tended in many places to exclude local government. While the new UDCs have their own legal base – and deal with strategic development opportunities, “leaving household and routine applications to the local authority”²⁸ - local authority places are guaranteed on the Board. (usually comprising 11 members plus a Chair and Deputy Chair). Their powers remain quite extensive and include:

- acquire, hold, manage, reclaim and dispose of land and other property;
- carry out building and other operations;
- seek to ensure the provision of water, electricity, gas sewerage and other services;
- carry on any business or undertaking for the purposes of regenerating its area;
- generally do anything necessary or expedient for this purpose.

6.4 Leader Local Action Groups (EU)

Leader is an EU rural policy initiative from 1991 which has now been adopted and incorporated in the national policy frameworks of all 27 member states. Leader emerged from a widespread recognition that rural areas – and the rural economy generally - across Europe were in crisis and that traditional top-down farm policy was incapable of turning around the decline. The positive experiences generated by a succession of pilot projects in different countries pointed to the potential – previously untapped – of local action to diversify and regenerate the rural economy.

At the centre of the Leader concept since its inception in 1991 has been the Local Action Group (LAG). While the legal form and composition of the LAGs differs from country to country, its primary characteristic is that of a partnership of local stakeholding interests – local government; the social partners (farm groups, businesses, cooperatives etc); local community (non farm) interests; state bodies active in the local area (eg farm extension services, employment services); other relevant institutions (eg education and training bodies). The LAG is tasked firstly with undertaking a local socio-economic needs analysis for the purpose of identifying and agreeing development priorities. These are further elaborated and operationalised in the context of Local Action Plan or strategy. In some member states (eg Ireland, the Leader LAG, following approval of the action plan, receives a “global grant” to meet the cost of implementation of the plan. Government support also includes operational or running costs.

The Leader experience stretches over four multi-annual EU budgetary periods – back to 1991. It has fundamentally changed the structure and logic of decision-making in rural development policy in favour of local participation. Since 2007, Leader LAGs can deliver farm development and agri-environmental measures in addition to their traditional role in rural economic and social diversification.

6.5 Local Employment Partnerships

Local Employment Partnerships emerged from the same period (early 1990s) when persistently high level of unemployment, long term unemployment and youth unemployment blighted development in urban areas in Ireland. The positive experience and policy lessons generated by integrated (rural) development projects and the early Leader model convinced policy managers to introduce a similar local partnership based approach in some of the employment blackspots in urban areas across the country. Also, at national level, there was a strong movement in support of a national partnership as a platform for consensus and stability in terms of macro and socio-economic development policy.

The local partnerships brought together the same groups of stakeholders – local government, statutory bodies, employers and trade unions, non-government organisations and local community groups. Their mission and focus

was to combine their different perspectives, practices and insights to understand better the critical blockages in the local labour market. Their analysis and subsequent local employment strategy based on local needs and opportunities, can include actions to create or sustain jobs locally, to improve the functioning of the labour market, to enable those excluded or distant from the labour market to integrate into the local economy. The Partnership decides on the objectives and the measures of the local strategy – most of the delivery is carried out by a core team of development professionals, accountable to the Partnership Board. One of the innovations of the Irish model was the use of the “global grant” – agreed following negotiation around the proposed local strategy.

This model of concerted local action was seen as catalytic in turning around the development conditions in many of these hitherto unpromising urban areas. Within a short time, the “Irish case” was attracting the interest of OECD and other international observers.

6.6 Territorial Employment Pacts

The positive experience of local development initiatives across Europe in regenerating rural and urban economies and in tackling high levels of unemployment led to the inclusion of local employment development as a key policy priority in the European Employment Strategy. Towards the end of the 1990s, Territorial Employment Pacts (TEPs) were being established in regions and local areas in different member states of the European Union – especially Italy and Austria. The TEPs brought together all the relevant stakeholders at local level to design and drive the local initiative to combat unemployment and to create jobs locally. They comprised representatives from the social partners (employer and labour organisations), local community interests, along with those from state institutions active at local level in different aspects of economic and employment development. Local government members and officials were also members of the Pacts.

The TEPs have been responsible for identifying needs, agreeing priorities and bringing forward innovative local solutions. Often, the quality of the innovation has been in the combination of different approaches – as more traditional programmes and measures are “tweaked” to ensure that they fit better with local circumstances and needs. In the majority of cases, individual institutions finance and deliver that part of the solution closest to their respective core business – but within the context of a coordinated and managed project. Some of the Pacts (closer to the Irish Local Employment Partnership model) have their own management team which delivers (at least) part of the local employment development strategy – and has overall responsibility for coordinating the inputs of other institutions.

6.7 Local Strategy Partnerships ²⁹

Following on earlier local development experiences in the United Kingdom (LEDAs, UDCs in Great Britain and the Peace partnerships in Northern Ireland) the concept of the Local Strategy Partnership (LSPs) was first introduced in 2000 and further developed over the last years. The LSPs are non-statutory, non-executive partnerships that aim to reduce regional and local disparities. They form a system of sub-regional partnership bodies focused on the 88 most deprived districts in England. While the LSPs have no direct legal standing or funding of their own, they bring together local authorities, health services, local offices of the public employment service, community groups, businesses and others to facilitate the “joined-up” delivery of services and to promote economic, social and environmental development. Increasingly, they are seen as “partnerships of partnerships”, drawing together at local level all of the clusters engaged in one or other aspect of the development equation with a view to achieving strategic coherence in the overall objectives and realisation of sustainable community development.

There is an expectation in England today, that the LSP approach will become a critical linking factor – connecting top-down with bottom-up and creating the space locally for all the organisations and institutions working for economic, social and environmental development in all local authority areas rather than simply associated with the most deprived areas.

6.8 Regional Growth Agreements (Sweden)

Regional Growth Agreements (RGAs) are a governance device for co-ordinating multi-agency local partnerships in Sweden. RGAs mandate the regional authorities to create Regional Development Strategies in collaboration with a series of County Administrative Boards. These Boards consist of local partnerships made up of county labour boards, county councils, municipalities, universities, chambers of commerce and other private sector partners. The rationale is to achieve integration across all the governance levels from national (mandating the regions) to County (integrating the partners) to the municipal and the local (working in partnership) in an effort to achieve strong coordination. The RGAs do not receive direct funding. Instead, their task is to ensure more efficient co-ordination between actors and to ensure that resources are used more flexibly.

6.9 County Development Strategies (Croatia)

The story of local economic development in Croatia is one of transition across several donor sponsored initiatives to a national approach to local development – yet to be fully put in place. The initial LEDA experience was driven by UNDP, ILO and other international organisations in the immediate post war period. A number of pilot LEDAs were set up in several counties most affected by the war in the early 1990s. These resemble closely the first generation model encountered in South Africa, based broadly on the principle of public-private partnerships involving local government, the private sector and driven by development professionals. Other initiatives followed, such as the Entrepreneurship Centres and the state run HAMAG or small business agency with offices in many but not all counties. The focus was essentially on business development, support to small and start-up businesses, access to finance for small businesses. For their part, the LEDAs have been instrumental in shifting the mindset of local people in the areas in which they were present – by promoting a sense of enterprise, own initiative and “local can-do”. However, the smaller agencies were dependent upon project (frequently international donor) funding which tended to lead to competition for resources rather than any real motivation to cooperate.

The second significant wave of county based development³⁰ (2002-2006) was introduced through a special measure in the EU CARDS programme in support of the regions most affected by the Balkans war. Target counties were invited to establish broadly based partnerships which would include non-government and community organisations alongside local government, statutory bodies and the private sector. Their task was to undertake a thorough analysis of the socio-economic development of the county and to prepare an integrated development strategy or “Regional Operational Programme” (“ROP”). In practice, the ROPs were mainly about infrastructure and business development. The “ROP” was intended to draw in resources from the different sectors – national government programmes and funds, international donors and the private sector. In this respect, the “ROPs” introduced a degree of coherence in the practice of support from national funds and foreign donors (eg World Bank and the European Union).

However, a major limiting factor was the lack of ownership of the process by national government. The “ROP” was the initiative of the European Commission. While the measure was consulted and initially adopted by government as a useful way to channel resources to the parts of the country most affected by the recent war, it was seen as “yet another project” rather than a change in the overall approach to local development. Government funding to the regions continued through its traditional top-down sectoral routes. Nevertheless, although the experiment was limited to eight

³⁰ *there are 26 counties in Croatia today, plus the city of Zagreb*

counties, it attracted considerable local interest in other local government areas, many of which sought to learn from the process and to prepare their own ROP or County Development Strategy.

The successive layers of learning and practice in local development have created a bottom-up momentum for local development, which has been reinforced through the country's EU accession programme. In 2005, central government launched the National Strategy for Regional Development 2006-2013 which for the first time, puts in place a single national framework for regional and local development. It creates the space for the active involvement of county-based development actors, including the LEDAs, where these exist, in defining needs and priorities within a broad set of overall guidelines for national socio-economic development. The County and Wider Region Programme places the onus on County Development Partnerships, under the auspices of the county government, to prepare a county development strategy. The strategies are intended to cover a range of socio-economic investment fields – support for enterprise and employment, human resource development, protection and enhancement of the environment, small scale infrastructure for economic development. Based on the outcome of negotiation with central government, a County Development Contract is agreed. This provides the envelope for approved investments over the financial period. There are incentives for counties to cooperate and to put forward joint strategies or shared projects which can serve the wider region and which gain efficiencies of scale while meeting local needs and priorities. Major investments and national programmes continue to be managed centrally although over time these might be tweaked to address specific local issues. Implementation of the National Strategy for Regional Development will commence in 2008.

6.10 Local Development Global Grants (EU)

One of the key innovations introduced with the reform of the Structural Funds in 1988, was the introduction of the concept of the global grant to promote integrated area-based development. The global grant (or block grant) was designed with local development in mind. It was intended to provide a degree of flexibility not normally associated with EU or publicly financed programmes generally – and in particular to avoid the lengthy delays associated with government programme financing generally. Institutionally, it is frequently associated with the establishment and/or accreditation at national or regional level of an Intermediary Body (non-government) which is responsible for the overall management of the fund. One such body was the Area Development Management (ADM), now known as Pobal, in Ireland. When it was set up in the early 1990s as a company limited by guarantee, ADM/Pobal was quite unique in that it was empowered to appraise local area socio-economic development plans, enter into negotiations with the partnership submitting the plan – and allocate block funding on the basis of the outcome of negotiations. The local area partnership was then responsible for the implementation of the agreed strategy, while the process was monitored by ADM/Pobal – and subject to the normal audit procedures.

While the arrangement was generally seen to have facilitated a significant surge in development investment at local level in most parts of the country, over time the disciplines and constraints associated with EU and national funding have won back the territory. Today, the scope for global grants is quite narrow and more prescribed. However, they can still apply to development situations where the final recipient - or sub-project - is too small to be administered on a cost effective basis. In their guidelines for "block grants", the EEA Financial Mechanism and the Norwegian Financial Mechanism³¹ state that "they (block grants) enable ... resources to be made available to organisations which are often well placed to respond to specific development issues (eg social inclusion, or local development initiatives) but not necessarily well equipped to deal with the demands of the application process itself".

31 *Block Grants - The EEA Financial Mechanism and the Norwegian Financial Mechanism 2004-2009*

6.11 Specific Global Planning – Participatory Budgeting (Brazil)

During a recent study tour to Brazil, a delegation of policy makers and senior managers from the Eastern Cape was introduced to the concept of specific global planning. This discipline of integrated strategic planning is required for any public funding for poor parts of the city and focuses on social and environmental issues as well as land ownership and land use. The process of specific global planning includes the participatory budgeting process, involving local communities, including the most deprived, in the decision making process around local investments. The specific global plan for the slum area visited by the delegation was developed between 1998 and 2000. Plans, when based on a thorough and inclusive approach to needs assessment take time to prepare. Building consensus at every stage is not fast track work. Data on the area was produced and possible solutions were proposed. A problem diagnosis exercise, involving residents of the area, identified problems such as violence, poor education, infrastructure deficiencies (e.g. roads and sanitation), environmental risks (e.g. landslides), and drug trafficking. Solutions identified included the construction of an avenue that allows car traffic through the entire slum, combined with a range of social interventions, including the construction of new homes for those displaced by the new road infrastructure, and the formation of a sewing cooperative to make uniforms for construction workers (which were taken from the slum itself).

The delegation visited the premises of the sewing cooperative, which had diversified its product range to include hospital uniforms, craft work and others, making it a more sustainable business proposition. The delegation also visited a day care centre constructed for children of working people who live in the slum – allowing more women including single parents to be economically more self sufficient. This facility, which was chosen as a priority during the planning process, takes children in two shifts during the day, and presents children with a well-equipped, well-managed and safe environment.

6.12 South America - diverse

The following is an extract from an article in CEPAL (Comision Economica para America Latina y el Caribe) on local economic development and decentralisation in Central and South America.

LOCAL ECONOMIC DEVELOPMENT AND DECENTRALIZATION IN LATIN AMERICA • FRANCISCO ALBURQUERQUE

There is no single cause lying at the origin of the local economic development initiatives implemented in Latin America. Many of those initiatives arose as a reaction to local economic crisis situations and the lack of suitable policies emanating from the central level of the State to deal with them. The industrial crisis which gave rise to the "Gran ABC" initiative in the state of São Paulo is a good example of this (Leite, 2000). Local economic development initiatives have also had to tackle economic problems at the municipal level which are reflected in growing demands by local communities. After the first popular election of mayors in 1988, the municipality of Pensilvania, in the eastern region of Caldas (Colombia), began to play an active role in the promotion of local economic development, while also promoting improvement of the road infrastructure, expansion of the coverage of public services, greater access of the population to health and education, and the implementation of programmes and projects designed to generate source of employment through support for micro-enterprises (Maldonado, 2000b). In the same way, the restoration of democracy at the municipal and the local level in general has been accompanied by greater demands for the local public authorities to present concrete programmes and proposals to the inhabitants on the substantive issues of the development of production and employment at the local level. In some cases, the emergence of local economic development initiatives has been facilitated by an intelligent process of institutional deconcentration promoted by some central-level bodies, as in the case of the Solidarity and Social Investment Fund (FOSIS) in Chile, where a leading role has been given to local teams so that they can act as local development agents (Cáceres and Figueroa, 2000). Finally, there is the example of Villa El Salvador (Peru), where the initiatives taken had their origin in the plans designed by the central government to promote self-build activities in the areas of housing and urban infrastructure, instead of the traditional housing programmes subsidized by the State (Benavides and Manrique, 2000).

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Annexure 1

PEOPLE INTERVIEWED DURING LEDA SURVEY

1. MR. ZUNGULA

OR TAMBO AND NTINGA DA

2. MR. M FILTANE

NTINGA DA

3. MR. CEKWANE

NYANDENI LM

4. MR. A. NTSHUDU

BLUE CRANE LM

5. MS. LU HEIDEMAN

THINA SINAKO – RFA – AMATOLE DISTRICT

6. MR. Z. MBEKENI

DEDEA

7. MS. N. DLAKAVU

DEDEA

8. MR. T. MASHOLOGU

CHRIS HANI DM

9. MS. J. DU PLESSANI

AEDA

10. MS. P. XUZA

AEDA

11. MR. J. GREEFF

AEDA

12. MR. A. MURRAY

ECSECC

13. MR. T. ZAKADE

DLGTA

14. MS. N. MDINGANE

DLGTA

15. MR L. PLAATJIE

DLGTA

16. MR. O. MAKUNGA

THINA SINAKO – RFA - CACADU

17. MR. M. FUNDAM

ADM

18. MS. M. NEL

DBSA

19. MS. F. SEPHTON

UKHAHLAMBA DM

20. MR. P. VOGES

MBDA

21. MR. N. KALAWE

NM MM

22. MS. L. MXENGE

NM MM

23. MS. N. VENA

IDC

24. MS. N. NCOKAZI

BCM

25. MS. F. MAQWATI

THINA SINAKO – RFA – OR TAMBO

26. MR. YOKWE

PORT ST JOHNS DA

27. MR. Z. MANGCOTYWA

DLGTA

28. MR. D. MAGXWALISA

CACADU

29. MR. K. BERN

ECDC

30. MR. C. GILMORE

DPLG

31. MR. MDILA

BCDA

Annexure 2

Points for Discussion with Survey Respondents

Background

Request from Eastern Cape Economic Development Forum to carry out a review of the legal, institutional, strategic and operational contexts within which the Local Economic Development Agencies in the Eastern Cape are operating – and to put forward recommendations aimed at optimising their involvement in and contribution to the socio-economic growth and development of the Province.

Issues

Recent growth of LEDAs – time to take stock;

Need to clarify roles – and avoid unnecessary overlap;

Perceptions of constraints on effective functioning of LEDAs – need to explore;

Competition for scarce resources.

Scope of Enquiry

- Purpose and Role of LEDAs in overall development process;
- Organisational arrangements;
- Scope and range of operation;
- Institutional framework;
- Accountability and reporting arrangements (within government and other relevant constituencies);
- Wider development context – Inter-relationships/ interdependencies?
- Requirements for effective functioning – Resources (human and financial) and sustainability issues;
- Lessons learned – future directions.

Purpose and Role of LEDAs

- Relevant legislation
- Purpose – Mandate – who/what defines the purpose of the LEDA?
- How do you define the role of the LEDA?
- How do you define the Agency's boundaries?
- If you were to start from scratch – how would you prefer to define the role of the LEDA?

Organisational Arrangements

- Relevant Legislation – statutes?
- Board membership – who nominates
- Stakeholders/Interest Groups involvement in shaping mandate – who are the stakeholders/which interest groups?
- Internal Organisational Structure - Professional background of staff;
- Are there any changes you would like to see in the organisation of the LEDAs?

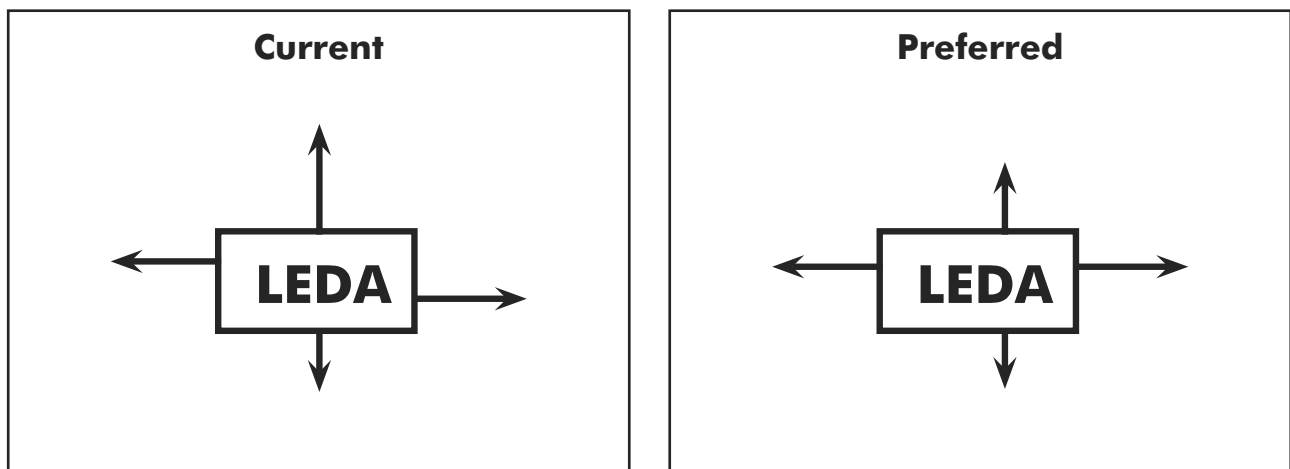
Fields of operation

- Programmes and services provided
- How do these programmes relate to the Provincial Growth and Development Programme/ National Spatial Development Plan/the Integrated Development Plan/and the Local Economic Development Plan?
- Who are the Beneficiaries?

- How do you make contact with beneficiaries?
- What specific LED actions have you carried out in the past year?

Institutional Framework

- Relevant legislation
- Can you describe the institutional setting?
- Which institution(s) direct, supervise the work of the Agency?
- To which institution(s) does the Agency report? – primary? secondary?
- With which institution(s) does the Agency interact most regularly? – how would you define the interaction?
- Which institutions/bodies, if any, report to the Agency?
- What changes would you like to see within the present institutional framework? In the boxes below, can you indicate the institutions with which you are in closest/most frequent/ communication?



Accountability - performance and financial responsibilities to various stakeholders

- Relevant legislation
- Requirements under MFMA; Municipal Systems Act; other relevant laws (eg in relation to Integrated Development Plans)?
- Who do you report to in relation to 1) Financial 2) Operational 3) Impact?
- How relevant are the reporting requirements to the business of the LEDA?
- How frequently do you report? Do you receive feedback on your reports?
- What mechanisms are there in place to monitor and evaluate performance and results of the agency?
- Are there any improvements that you would like to see in this context?
- Has the Agency reported to the Growth and Development Summits? If so, how do you perceive outcome?

Inter Relationships- in the wider socio-economic development context

- Partner Organisations – which?
- On what basis are the partners engaged?
- What relationship, if any, do you have with the managers of the Provincial Growth and Development Programme/the local area Integrated Development Plan(s)
- What relationships do you have with the Municipal LED units?
- What other agencies are involved with socio economic dev in the area? What are your contacts with them?

- Are there any areas of overlapping activity? If so which?
- What Are The Gaps?

Requirements For Efficient Functionality

- Financial resources required
 - Sources of finance
 - Programme funding, running costs?
- Human Capital
 - Size and structure of team
 - What training and development opportunities are available for staff?
 - What training would you like to introduce?
 - Do you have external technical assistance
- Sustainability Requirements
 - medium and long term plans
 - possibility of revenue generation
 - asset portfolio
 - new sources of finance

Lessons learned – future directions

- What are the critical lessons learned since the establishment of the agency?
- How have these changed the way your agency operates? Deals with its client base/ funders/ partners?
- What changes do you anticipate over the next years? Positive/ negative/ neutral?
- What changes, if any, would you like to see in your policy and operational environment in the future?
Describe

ADDITIONAL QUESTIONS FOR LOCAL GOVERNMENT

- Strategic plan (IDP) – goals and objectives?
- What are the main priority areas? What time frame is covered? What’s the overall budget?
Sources of funding?
- How was the integrated development plan prepared? Which institutions/stakeholders were involved?
- How is the integrated development plan managed? Which agency takes the lead and coordinates?
- What is your relationship with the Development Agency? What formal linkages? Informal linkages? How would you describe the division of competence between the LED Unit and the Agency?

ADDITIONAL QUESTIONS FOR PROVINCIAL AND NATIONAL AGENCIES (IDC – ECDC)

Purpose, Mission and Strategic Goals

- What do you consider to be the mission, purpose, strategic objectives of local economic development agencies? Please define?
 - o What is their most critical value-adding function?
 - o How do these relate to the strategic objectives of your organisation?
- Are there any changes that you would like to see in their strategic objectives?
- How does the work of the Agency relate to
 - o the Provincial Growth and Development Programme
 - o the Integrated Development Plans in the District

Annexure 3

Summary of Relevant Legislation for LED

LEGISLATION	RELEVANT SECTION	SUMMARY OF OBJECTIVES AND REQUIREMENTS
<p>THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA 1996</p> <p>The Constitution of the Republic of South Africa 1996 binds all government Departments and stipulates Local Government's mandate. In particular:</p>	<p>CHAPTER 7 - LOCAL GOVERNMENT</p> <p>SECTION 152. OBJECTS OF LOCAL GOVERNMENT</p> <p>THE OBJECTS OF LOCAL GOVERNMENT ARE:</p>	<p>a) to provide <u>democratic and accountable government</u> for local communities;</p> <p>b) to ensure the provision of services to communities in a sustainable manner;</p> <p>c) to promote <u>social and economic development</u>;</p> <p>d) to promote a safe and healthy environment; and</p> <p>e) to encourage the involvement of communities and community organisations in the matters of local government.</p> <p>2) A municipality must strive, <u>within its financial and administrative capacity</u>, to achieve the objects set out in subsection (1).</p>
	<p>SECTION 153 DEALS WITH THE DEVELOPMENTAL DUTIES OF MUNICIPALITIES</p>	<p>A municipality must:</p> <p>a) structure and manage its administration, and budgeting and planning processes to give <u>priority to the basic needs of the community, and to promote the social and economic development of the community, and</u></p> <p>b) participate in national and provincial development programmes.</p> <p>Further, in terms of sections 215 and 216 of chapter 13, it is required that the municipalities are transparent in budget and budgeting processes. It is with this broad mandate in place for local government, that the Development agencies as part of Local Government have been created.</p>

<p>REPORTING REQUIREMENTS IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT 56 OF 2003</p>	<p>GENERAL OVERVIEW ON REPORTING</p>	<p>SECTION 87 (1) The Board of Directors must submit a proposed budget not later than 150 days before the start of the new financial year.</p> <p>SECTION 87 (11) The accounting officer must by no later than 7 days after the end of each month submit a financial statement to the accounting officer of the parent municipality</p> <p>SECTION 88 The accounting officer must by 20 January of each year submit a report on assessment of the entity to the Board of Directors and to the Parent Municipality.</p> <p>SECTION 98 The accounting officer must reconcile receipts on a monthly basis</p> <p>SECTION 101(1) The accounting officer must report to the Board of any financial problems in the entity</p> <p>SECTION 101(2) The accounting officer must table the report to the council at its next Meeting.</p> <p>SECTION 121 Provides for reporting on an annual basis to the Board, the Municipality and the council.</p> <p>SECTION 122 The annual statements of the municipality and the entity must be Consolidated</p> <p>SECTION 126 The accounting officer of the entity must submit a report annually to the parent municipality, and the auditor general for auditing within 2 months after the financial year end.</p> <p>SECTION 102 Irregular and wasteful expenditure must reported to the Board, the Mayor and to the Municipal manager and the Auditor General.</p> <p>SECTION 103 The entity must report improper interference by councillors.</p>
<p>MFMA OTHER LIMITATIONS ON THE ENTITIES</p>	<p>SECTION 90 AND SECTION 172</p>	<ul style="list-style-type: none"> • Disposal of capital assets (section 90) is prohibited and entities are precluded from disposing any capital asset. • Only the Council of parent municipality may decide to dispose of an asset. • Financial misconduct (section 172) provision is made for the prosecution internally, externally in the civil and criminal courts for any contravention of the Act.
	<p>PUBLIC PRIVATE PARTNERSHIPS LIMITATIONS</p>	<ul style="list-style-type: none"> • The regulations prohibit entities from initiating, procuring or entering into a public private partnership on its own or on behalf or the parent municipality. • The entity may be a partner to such partnership initiated, procured or entered into by the parent municipality. (GAZETTE NUMBER 27431) •

<p>REGULATIONS REGARDING INVESTMENTS IN TERMS OF GAZETTE NO. 27431 OF 2005</p>		<p>The regulations provide that an agency can have investments limited to the following types:-</p> <ol style="list-style-type: none"> 1. Securities issued by Government 2. Listed corporate bonds 3. Deposits with banks 4. Deposits with Public Investment commissioners 5. Deposits with corporation for Public deposits 6. Banker's acceptance certificates 7. Guaranteed endowment policies 8. Repurchase agreements with banks 9. Municipal bonds issued by the municipality <p>Any other investment the Minister may identify. The entity must include in its report (section 71) a description of the portfolio of investments according to regulation 9. The legislation prohibits any other types of investments save for those listed above, to ensure that public funds are not placed at risk in unpredictable investments.</p>
<p>PROCUREMENT POLICIES</p>	<p>SECTION 111</p>	<p>The legislation governing procurement has been highlighted as prohibitive by some agencies due to the compliance requirements and regulations arising from-;</p> <ul style="list-style-type: none"> • the Constitution, • the parent municipality and • Its own procurement policies. <p>The municipal entity must comply with section 111 (giving effect to section 217 of the Constitution and part 1 of chapter 2 of the regulations.) In addition the municipal entity must comply with the parent municipality's procurement policies.</p>
<p>MUNICIPAL DEMARCATION ACT 27 OF 1998</p>		<p>National Government has altered the landscape of local governments by a massive reduction of municipalities. Historically local governments /municipalities numbered 843. Due to the enactment of new legislation the new local governments/ municipalities have decreased to 284 in all. The Act provides for the division of the Republic into specific areas that fall under the new local governments.</p>
<p>THE MUNICIPAL STRUCTURES ACT 117 of 1998</p>		<p>The Act provides for the establishment of municipalities, division of functions and powers. In addition the act provides for the creation and implementation of internal systems and structures. Development Agencies are governed by this Act and with effect from 1 August 2004, as a result the only types of municipal entity allowed are:- Private company, service utility and multi jurisdictional utility. The entities basic descriptions follow hereunder.</p>

<p>MUNICIPAL SYSTEMS ACT AS AMENDED TYPES OF MUNICIPAL ENTITY</p>	<p>PRIVATE COMPANY COMPANIES ACT, 1973, (NO. 61 OF 1973) CHAPTER III: TYPES AND FORMS OF COMPANIES</p>	<p>) Two types of companies may be formed and incorporated under this Act, namely:</p> <p>a) a company having a share capital; or</p> <p>b) a company not having a share capital and having the liability of its members limited by the memorandum of association (in this Act termed "a company limited by guarantee").</p> <p>2) A company having a share capital may be either a public company or a private company having shares of par value or shares of no par value.</p> <p>3) All companies limited by guarantee, including such existing companies, shall be deemed to be public companies for the purposes of this Act.</p> <p>Service utility is any organization which provides services to the general public, although it may be privately owned. Public service utilities include electric, gas, telephone, water, and television cable systems, as well as streetcar and bus lines. They are allowed certain monopoly rights due to the practical need to service entire geographic areas with one system, but they are regulated by state, county and/or city public utility commissions under the Republic's laws.</p>
<p>MUNICIPAL SYSTEMS ACT 2003</p> <p>PRIVATE COMPANY AS A MUNICIPAL ENTITY</p>	<p>SECTION 86 C of the Act makes provision for the types of shareholding that the Municipalities can have in a private company.</p>	<p>This type of entity spans over the demarcated areas (under the Municipal Demarcation Act) and may involve 2 or more Municipalities</p>
<p>MULTI JURISDICTIONAL SERVICE UTILITY</p>	<p>SECTION 86 C Municipality</p> <pre> graph TD A[Section 86 C Municipality] --- B[Municipality holds all shares] A --- C[Municipality holds lesser share if the majority is held by another municipality, national or provincial organ state] A --- D[Municipality and a private investor only if effective control lies with the municipality, or another municipality] </pre>	<p>This type of entity spans over the demarcated areas (under the Municipal Demarcation Act) and may involve 2 or more Municipalities</p>

<p>MUNICIPAL FINANCE MANAGEMENT ACT 56 OF 2003</p>		<p>The Act aims to provide sound sustainable management for the financial affairs of municipalities. Further, the Act establishes norms and standards for local spheres of government. In addition, the Act allocates an extremely important role of overseeing on the councillors; hence, councillors are prohibited from serving on tender committees and boards of municipal entities.</p>
<p>MUNICIPAL SYSTEMS ACT 32 OF 2000</p>		<p>The Act provides for socio economic upliftment of local communities and the implementation of mechanisms and processes</p>
<p>INTERGOVERNMENTAL RELATIONS FRAMEWORK ACT 13 OF 2005</p>	<p>SECTION 4.</p>	<p>The object of this Act is to provide within the principle of co-operative government set out in Chapter 3 of the Constitution a framework for the national government, provincial governments and local governments, and all organs of state within those governments, to facilitate co-ordination in the implementation of policy and legislation, including-</p> <ul style="list-style-type: none"> (a) coherent government; (b) effective provision of services; (c) monitoring implementation of policy and legislation; <li style="padding-left: 20px;">and (d) realisation of national priorities.

Annexure 4

PERMITTED INVESTMENTS

A municipality or municipal entity may invest funds only in any of the following investment types.

- a) securities issued by the national government;
- b) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- c) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No: 45 of 1984);
- e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (act No 46 of 1984);
- f) banker's acceptance certificates or negotiable certificates of deposit of bank registered in terms of the Banks Act, 1990;
- g) guaranteed endowment policies with the intention of establishing a sinking fund;
- h) repurchase agreements with banks registered in terms of the Banks Act, 1990
- i) municipal bonds issued by a municipality; and
- j) any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.