

UNIVERSITY OF KWAZULU-NATAL

**LOCAL ECONOMIC DEVELOPMENT AND LOCAL GOVERNMENT:
STRATEGIC CONSIDERATIONS**

By

Mogale Daniel Diseko

212562607

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College of Law and Management Studies

Supervisor: Dr. Stanley Hardman

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DECLARATION

I Mogale Daniel Diseko declare that

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Abstract

The study draws from both domestic and international developments in the area of Local Economic Development. Various key focus areas pertaining to Local Economic Development are explored to develop an effective and integrated LED approach for local government in South Africa. Key focus areas of the study which seek to address the main question of the study include regulatory and legislative measures, best practices and standards, major economic and policy developments in the country and a case study on the impact of mining industry in South Africa on Local Economic Development. Mining operations and strategies by other countries, particularly China are discussed in great detail to draw lessons for future implementation and improvement in integrating the mining sector in LED initiatives in South Africa. South Africa as an emerging economy and a developing country should position itself favourably to harness the economic growth potential resulting from foreign direct investments. The local government is the most appropriate sphere of government to facilitate and promote investments and business growth and should play a critical role in driving LED and promoting local municipalities as attractive investment destinations for viable and sustainable business investment and expansion. The South African local government should embrace new developments in both developed and developing countries where major strides are made to promote and facilitate investments through collaboration and investment incentive packages.

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LIST OF ACRONYMS

AA	Affirmative Action
AIDS	Acquired Immuno-Deficiency Syndrome
ANC	African National Congress
ANCYL	African National Congress Youth League
ANT	Actor-Network Theory
BBC	British Broadcasting Corporation
BBBEE	Broad-Based Black Economic Empowerment
BBSEEC	Broad-Based Socio-Economic Empowerment Charter
BEE	Black Economic Empowerment
BEF	Business Enabling Fund
BI	Business Incubator
BL	Business Link
CDC	Community Development Corporations
CNPC	China National Petroleum Corporation
COSATU	Confederation of South African Trade Unions
CSI	Corporate Social Initiative
CSR	Corporate Social Responsibility
DBSA	Development Bank of South Africa
DEDT	Department of Economic Development and Tourism
DME	Department of Minerals and Energy
DoL	Department of Labour
DPLG	Department of Provincial and Local Government
DPRU	Development Policy Research Unit

DTI	Department of Trade and Industry
ECOWAS	Economic Community of West African States
EIA	Environmental Impact Assessments
EPWP	Expanded Public Works Programme
EU	European Union
FDI	Foreign Direct Investment
FE	Further Education
FE	Foreign Enterprises
FIE	Foreign-invested Enterprise
GATT	General Agreement on Tariffs and Trade
GCC	Global Commodity Chain
GEAR	Growth Employment and Redistribution
GDP	Gross Domestic Product
GGDA	Gauteng Growth and Development Agency
GIBS	Gordon's Institute of Business Science
GPN	Global Production Network
GSB	Graduate School of Business
GTZ	German Technical Corporation
GVA	Gross Value Added
HDSA	Historically Disadvantaged South African
HIV	Human Immuno-deficiency Virus
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IDP	Integrated Development Planning
IGRFA	Intergovernmental Relations Framework Act

IMF	International Monetary Fund
ISP	Industrial Strategy Project
KPA	Key Performance Area
KSF	Key Success Factors
KZN	Kwa-Zulu Natal
LCF CAP	Local Competitive Fund – Competitive Action Plan
LCF IMP	Local Competitive Fund Implementation Plan
LDC	Less Developed Country
LED	Local Economic Development
LETS	Local Exchange Trading Schemes
LGTAS	Local Government Turnaround Strategy
LSC	Learning and Skills Council
LSP	Local Strategic Partnerships
MDC	Multimedia Development Corporation
MIG	Municipal Infrastructure Grant
MNC	Multi-national Corporation
MRC	Medical Research Council
MSA	Municipal Systems Act
MERG	Macro-Economic Research Group
MPRDA	Mineral and Petroleum Resources Development Act
MSC	Multimedia Super Corridor
NAMA	Non-Agricultural Market Access
NEF	National Empowerment Forum
NEPAD	New Partnership for Africa’s Development
NPM	New Public Management

NWS	North Warning System
OECD	Organisation for Economic Cooperation and Development
PAIL	Pan Arctic Inuit Logistics
PIC	Public Investment Corporation
PPP	Public-Private Partnerships
R&D	Research and Development
RDA	Regional Development Agency
RGA	Regional Growth Agreements
RMB	Renminbi (Official currency of the People's Republic of China)
RSA	Republic of South Africa
SACP	South African Communist Party
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SBS	Small Business Service
SBU	Shanduka Black Umbrellas
SCT	Social Capital Theory
SDT	Special and Differential Treatment
SETA	Sector Education and Training Authority
SIC	Single Industry Communities
SIMS	State Intervention in the Mining Sector Report
SLP	Social and Labour Plan
SME	Small and Medium-sized Enterprise
SMME	Small Medium Micro Enterprise
SRP	Sub-Regional Partnerships

STATSSA	Statistics South Africa
TDF	Training and Enterprise Council Discretionary Fund
TEC	Training and Enterprise Council
TIH	The Innovation Hub
TNC	Transnational Corporation
USB	University of Stellenbosch Business School
WESGRO	Western Cape Investment Promotion Agency
WTO	World Trade Organisation

Chapter 1: Introduction

1.1 OVERVIEW

Chapter one provides an overview of the thesis and outlines key areas of focus. In addition, this chapter provides a detailed description of the research design and methodology employed in conducting this research. A literature review discusses key areas of interest which provides a preliminary understanding of key issues to be examined and analysed in the study.

1.2 RESEARCH QUESTION

Local Economic Development (LED) is a locally driven process by which government, business, communities and labour work collectively in a locality to stimulate and transform the economy, to create new job opportunities and to address economic growth constraints (www.drakenstein.gov.za accessed 20 January 2013). Further, LED is one of five Key Performance Areas (KPA's) of Local Government in South Africa (RSA, 1998; HSRC, 2003). LED is vital for economic growth and poverty alleviation especially in a developing country like South Africa. The primary goal of LED is to attract investment into the locality and to create jobs; all of which are necessary to advance efforts to grow the economy and to reduce unemployment and poverty. However, many developing countries are beset by a multitude of challenges such as vast inequality, skewed and dysfunctional economies, under-development and the shortage of skills among other challenges (Cloete and Auricombe, 2007).

In South Africa, the Constitution and many other policies and legislation provide a regulatory framework for implementing and driving LED. In addition, legislation such as the Inter-governmental Relations Framework Act of 2005 (IGRFA) attempts to facilitate cooperation and interaction among the different spheres of government (RSA, 1996; RSA, 2005). Yet, the objectives and values that LED seeks to achieve are not being

attained. This prevailing situation in relation to LED in South Africa begs the question: what are the root-causes of the constraints to successful implementation of LED? This study seeks to find answers to this question by investigating the root causes of constraints relating to implementation of LED and it does this by asking two main questions (primary and secondary) as described below.

1.2.1 Primary research question

The primary question that the present study seeks to answer relates to the economic development and growth constraints faced by local governments and the ways and means available to address these challenges. Thus, the current study seeks to develop the most effective strategy for local governments in South Africa to achieve high levels of local economic development and growth.

1.2.2 Secondary research question

Government initiatives to help address constraints to economic growth and to create jobs are embodied in the LED Framework. The secondary question that this study seeks to answer focuses on the role and functions of local government in relation to implementing LED policies. Put differently, the study seeks to establish the following:

- What opportunities exist for local government to make LED successful?
- What should local government do (functions, roles and responsibilities, mechanisms, approaches, strategies, etc.) to implement LED policies effectively and successfully?

1.3 RESEARCH OVERVIEW

The present study focuses on the South African Local Economic Development policy and the role of local government in formulating and effectively implementing this policy.

The policy research on LED examines and analyses various policies, frameworks, legislation, and strategies both domestically and internationally with the intention of identifying the best practice model and policy on LED which would be best suited for the South African context. Further, the study examines the role of local government and how best to promote and facilitate LED.

1.3.1 Policy research: Local government and Local Economic Development

The study focusses on research of policies and legislation relating to local government and local economic development in South Africa. The study further draws insights from policies in other countries such as the UK, Canada, China, and the US in their approach to local economic development. An issue raised quite often among practitioners and politicians at local government level is the assignment of powers and functions to this sphere of government which is perceived not to be commensurate with the degree of responsibility assigned to them. There is also a concern about overlapping competencies and responsibilities among the different spheres of government as stipulated in Schedules 4 and 5 of the South African Constitution, particularly regarding concurrent competencies where two or more spheres of government are charged with the same responsibility for provision of public services. The discussion and analysis on local government and local economic development in South Africa centres around the powers and functions of local government with respect to the policies and legislation which empower this sphere of government and its capacity and capability to formulate and implement local economic development effectively and efficiently.

1.3.2 Local government and local economic development policy

The South African local government is regulated and guided by a range of policy and legislative frameworks which include the Inter-governmental Relations Framework Act (IGRF) of 2005, Inter-governmental Fiscal Relations Act 97 of 1997, the Municipal Systems Act (MSA) of 1999, the Municipal Structures Act 117 of 1998 (MSA), the

Municipal Finance Management Act 56 of 2003 (MFMA), the Public Finance Management Act (PFMA) of 1999, the White Paper on Local Government of 1999, the annual Division of Revenue Act (DORA), Municipal Planning and Performance Management Regulations of 2001, Municipal Fiscal Powers and Functions Act No. 12 of 2007, and the Organised Local Government Act 52 of 1997.

Section 152 of the South African Constitution Act 108 of 1996 sets out the objects of local government which include provision of a democratic and accountable government to local communities, provision of services, social and economic development, promoting a safe and healthy environment, and promoting community participation in local government matters. Section 153 of the Constitution sets out the developmental duties of local government which include provision of basic community services, promotion of social and economic development, and alignment with national and provincial government programmes (RSA, 1996; RSA, 2000). The White Paper on Local Government of 1998 plays an important role in the functioning of local government as it provides the framework for the transformation of local government in South Africa and lays the basis for developing all legislation pertaining to local government.

1.3.3 Policy and programme integration, alignment and coordination

The legislation mentioned in section 1.2.2 above is intended to give effect to the principles and provisions of the Constitution and the White Paper on Local Government of 1998 by creating the framework, guidelines and institutions which will ensure effective implementation of socio-economic development policies and the achievement of set government targets and objectives such as provision of basic public services, poverty alleviation, addressing inequality, and promoting social and economic development (Bond, 2003; Simon, 2003). The national sphere of government develops this legislation and these policies and the sub-national governing bodies are required to implement them (RSA, 2008).

Further, the constitution requires all spheres of government and organs of state to support one another and to work in a manner that achieves alignment, coordination, and integration of their activities and programmes with the national priorities. This principle is given effect in the Inter-governmental Relations Framework Act (IGRFA) (RSA, 2005). The study analyses the impact of government legislation and policies on the ability of municipalities to achieve their development goals. Nevertheless, the set policies and legislation also present an opportunity for local government to improve on their mandates through support and collaboration of both national and provincial governments and other organs of state. The range of legislation mentioned above empowers and enables local governments to achieve their development goals more effectively and efficiently by promoting transparency and accountability. Further, this legislation promotes good governance and public participation in decision-making matters within their jurisdictions.

Chapter 5 of the Municipal Systems Act provides the principles, processes and procedures for integrated development planning (IDP). It further provides for the principles and processes of planning, performance management, resource mobilisation, and organisational change which are the central tenets of a developmental local government (RSA, 2000). One of the key development objectives of municipalities that must be reflected in the IDP is the local economic development aims of the municipality as stipulated in Section 26(c) of the Municipal Systems Act. The White Paper on Local Government emphasizes the importance and the principles of aligned, coordinated, and integrated development planning. Section B of the White Paper provides the framework and basis for integrated development planning, provision of public services, and local economic development. The importance of cooperative governance and the framework for inter-governmental relations is further emphasized in Section C of the White Paper on Local Government of 1998.

1.3.4 Local economic development strategies

Government policies such as the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR), Accelerated and Shared Growth Initiative for South Africa (Asgisa), and Joint Initiative on Priority Skills Acquisition (Jipsa) among others are aimed at addressing the socio-economic imbalances which are the legacy of the past apartheid government (Cash and Swatuk, 2011; RSA, 2008, Chen, 2005; Bennell, 1999). Local economic development is one of the key government strategies aimed at eradicating poverty and inequality and at developing the local economies throughout the country.

In this manner, the government seeks to increase community participation in the mainstream economy of the country to achieve a more balanced and equitable socio-economic development (RSA, 2008). The two main priorities of local economic development are job creation and business growth. Local economic development creates a favourable and attractive business environment for potential investors and for expansion of existing businesses in a locality. Increased business growth results in increased job creation and thus reduction of poverty and inequality. Local collaboration or cluster formation is a key requirement for improved local economic development. Other forms of collaboration and cooperation in improving LED include partnerships, networks, innovative systems, and triple helix models (Engstrand and Ahlander, 2008; Sporer, 2004).

In the South African context, stakeholders who would be part of such collaborative networks include universities, organised labour, local government, and the private sector. Some of the key success factors (see appendix 2-5) for local economies seeking to grow include: a skilled workforce, favourable policies and legislation, availability of resources and supporting structures such as business clusters and networks, an effective and efficient infrastructure such as roads and telecommunications, and supportive government structures such as favourable tax incentives and local economic development strategies (Turvey, 2006). The study discusses and analyses LED

strategies employed in South Africa and identifies both weakness and strengths of these strategies with the view to identifying measures to address these weaknesses and to improve on their strengths. Furthermore, the study examines and analyses LED strategies in other countries, both developing and developed, where LED has been successfully implemented and seeks to draw lessons from these success cases for potential adoption and implementation in the South African LED policy context.

1.4 BACKGROUND

This section provides a background of the study and overview of Local Economic Development (LED) in South Africa which is the main focus of the study. This introductory section provides an overview of key strategic considerations crucial for successful analysis, planning and implementation of Local Economic Development.

1.4.1 Background of the study

The study draws from both domestic and international developments in the area of Local Economic Development. Various key focus areas pertaining to Local Economic Development are explored to develop an effective and integrated LED approach for local government in South Africa. Key focus areas of the study which seek to address the main question of the study include regulatory and legislative measures, best practices and standards, major economic and policy developments in the country and a case study on the impact of the mining industry in South Africa on Local Economic Development. Mining operations and strategies by other countries, particularly China are discussed in great detail to draw lessons for future implementation and improvement in involving the mining sector in LED initiatives in South Africa. The collective of key strategic considerations and focus areas being explored in the study is then synthesized to develop an integrated approach for Local Economic Development in South Africa.

1.4.2 LED Overview

Snowball and Courtney (2010) and the World Bank (2009) define local economic development as a process whereby sector partners work together to increase economic growth and the level of employment in a locality (OECD, 2004). Rogerson (2010) argues that a policy intervention involving creation of favourable business environment for potential private investors is critical for successful LED and planning. Policy and legislation provide a regulatory and guiding framework for formulation and implementation of effective LED strategies. The primary role of LED planning should be the improvement of the local business environment (LBE) to attract the private sector to invest in the locality (Rogerson, 2010; van Gerwen and Nedanoski, 2005; Hindson and Meyer-Stamer, 2007).

Local government is the point of contact between the government and the people and is therefore mandated by the Constitution to provide public services in a sustainable manner (Ntliziywana, 2009; Atkinson, 2002; Holtzhausen and Naidoo, 2011). Despite the separation of powers, roles and responsibilities among the three spheres of government, the proximity of the local government and the significance of its role in service delivery elevates it from a mere implementer of national policies to being an equal partner of government, deriving its mandate from the Constitution (Ntliziywana, 2009). The Constitution (RSA, 1996) through schedules 4B and 5B empowers local governments by devolution of authority and functions to carry out certain public service delivery functions. Powers and functions and the structures and procedures of local government are further enshrined in legislation and policies which include the Municipal Systems Act (2000), the Municipal Structures Act (2001) and the Local Government White Paper (1998) (HSRC, 2003).

Local government has a developmental role and the White Paper on Local Government (RSA, 1998) defines developmental local government as a “local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives”

(RSA, 1998:21). The challenges of development, poverty eradication (Mubangizi, 2011), job creation and economic growth at the local level require integration, coordination and alignment of local government activities.

The White Paper on Local Government (RSA, 1998) identifies challenges facing municipalities including skewed settlement patterns, extreme concentrations of taxable economic sources, huge backlogs in service infrastructure and substantial variations in capacity. Local governments are required by the Constitution (RSA, 1996) to exercise their powers and to perform their functions effectively and efficiently to achieve their developmental mandate. Local Economic Development (LED) bears the responsibility of addressing development, poverty eradication, job creation and economic growth challenges at local government level. LED is an integral part of local government development strategy through Integrated Development Planning (IDP) processes (HSRC, 2003; RSA, 1998). The HSRC (2003) defines LED as “locality-based interventions undertaken by local stakeholders, usually operating through partnerships to achieve economic and employment improvements within that locality” (HSRC, 2003:7). LED is one of the key developmental outcomes of local government and includes among its objectives initiatives to review existing policies and procedures to promote local economic development and provision of special economic services (RSA, 1998).

1.5 RESEARCH PROBLEM

LED is a locally driven process of growing the local economy and creating job opportunities in the locality. Key role-players involved in driving LED include local government, private sector and civil society. LED impacts on all stakeholders and therefore necessitates a concerted approach. It is for this reason that LED is driven in partnership by all stakeholders. Challenges facing the formulation and implementation of LED, particularly the latter, are wide-ranging. The goals which LED seeks to achieve have strategic implications on the functioning and stability of a locality, including all its actors.

A strategic analysis of key factors affecting the implementation of LED is therefore necessary to develop a better understanding of the nature and functioning of LED and to improve its implementation. A crucial point of departure in analysing LED is the role of local government, as LED forms an integral part of its IDP process and its key strategy to address development, poverty eradication, employment and economic growth challenges (Odhiambo, 2010). Key strategic factors affecting LED which necessitate analysis either constrain or propel successful implementation of LED. These factors may also be internal or external. Therefore, an holistic evaluation of key factors which have an impact on LED is necessary.

The key area of analysis in the study is the policies and legislative frameworks such as the IGRFA of 2005, Municipal Structures Act of 1998, Municipal Systems Act 2000, and the White Paper on Local Government of 1999 which provide the legislative basis for the development and implementation of LED in South Africa. The Constitution (RSA, 1996) along with other related local government policies and legislation places the responsibility for LED within the ambit of local government functions. It is therefore necessary to analyse these policies in detail in an effort to establish the constraints relating to LED in South Africa and what opportunities are presented by these policies in relation to LED implementation. One example is the Integrated Development Plan, a document that serves as a strategic guiding and implementation tool for local governments in relation to their electoral mandate. Section 26 (c) of the Municipal Systems Act (RSA, 2000) requires local governments among other things to develop LED strategies and to reflect LED priorities and objectives of the council in their IDPs.

The study analyses these documents in the context of both local and international perspectives on LED and seeks to identify gaps and opportunities relating to these documents with respect to LED in South Africa. Some of the considerations in this analysis include such factors as local community participation, international trends, local economic environment, local economic needs, economic sectors, key economic development initiatives, government strategies, and key local socio-economic priorities.

1.6 PRELIMINARY LITERATURE REVIEW

This section reviews literature on LED and local government to provide an overview of the relationship between the two concepts both internationally and in South Africa. Further, the literature review explores the developments and trends domestically and internationally with regard to opportunities presented by LED and new mechanisms available to local governments to achieve the goal of poverty eradication, job creation and economic growth. This exploration is done by discussing various topics on LED and local government including the developmental mandate of local governments in South Africa and the role of LED in job creation.

1.6.1 International context of local government

Intense competition for jobs and investment drives innovation and entrepreneurship by local governments both in the substance and administration of their LED activities (Morgan, 2010). In his study of governance, innovation and LED, Morgan (2010) examines questions regarding innovation in the composition and implementation of LED policies in North Carolina. The first question that Morgan seeks to answer is the extent to which North Carolina local governments (cities and counties) innovate by experimenting with alternative job creation strategies and policy instruments with respect to LED policies. The second question determines whether or not a relationship exists between the administration and substantive content of LED policies. The second question more specifically seeks to determine whether or not the employment of certain governance arrangements and management tools in implementing LED is associated with local policy innovation (Morgan, 2010).

North Carolina is ranked highly as a policy leader and innovator in economic development. This state has achieved such a status through visionary leadership in both private and public sectors that have invested in important long-term projects in the

areas of research and development, higher education and infrastructure improvements. North Carolina is consistently ranked by industry trade publications among the top five states in the US with respect to business climate and attractiveness for business locations. In addition to the above attributes, the state of North Carolina has targeted statutory tax credits (Morgan, 2010; Lee, Lee, and Feiock, 2012) and discretionary grant programmes to promote private investment and job creation (Morgan, 2010). Business climate rankings by industry trade publications are based on multiple criteria including cost factors, labour supply, regulatory environment, tax policies, quality of life, and infrastructure. North Carolina has recently managed to attract private investment and job creation through investments by large corporations including a Dell computer manufacturing facility in 2004, a Google server farm in 2007, and Apple's \$1 billion data centre in 2009 (Morgan, 2010).

The state managed to secure these large-scale recruitment projects through state-level efforts and substantial local incentives including financial and tax incentives worth millions of US dollars. In addition, North Carolina has several unique organisations that are at the forefront of promoting alternative and innovative economic development policies within the state and throughout the US (Morgan, 2010). Morgan (2010) points out that while North Carolina is widely considered an innovator and trendsetter in economic development, the role played by local government in this perceived status remains unclear. It is for this reason that Morgan's study seeks to identify economic development activities of local governments that may have contributed to North Carolina's status as a trendsetter and innovator in the policy realm of LED.

Morgan (2010) also cautions that it cannot be assumed that state-level innovation translates or trickles down to local government efforts. Counties are more likely than cities to engage in innovative economic development activities (Morgan, 2010; Reese, 1994). Morgan (2010) argues that policy innovation in LED is driven by counties. In addition, management techniques that are consistent with new approaches and help reduce risk and uncertainty associated with policy experimentation contribute to counties driving policy innovation in LED (Morgan, 2010). A locality's use of innovative

management techniques in economic development corresponds to its use of innovative strategies and tools for stimulating job creation and private investment (Morgan, 2010).

1.6.2 South African context of local government

The South African Constitution declares that the fundamental objective of local government is to promote economic and social development in localities (RSA, 2006; RSA, 1996). Local government in South Africa is assigned five Key Performance Areas (KPA's) namely: LED, Municipal Transformation and Organisational Development, Basic Service Delivery, Municipal Financial Viability and Management, and Good Governance and Public Participation (RSA, 2006).

1.6.3 Developmental mandate

The attributes of a developmental state include the ability to plan long-term, to focus key stakeholders on a common agenda, and to mobilize state resources to build productive capabilities. The primary role of a developmental state is to harness the power of government at every level to ensure that each part of the country develops to its full potential. Turok (2010) identifies challenges and weaknesses of the South African government as a developmental state as follows: uneven and weak provincial capacity, partial provincial strategies, lack of resources for sustained implementation, and poor coordination across government (Turok, 2010).

African countries have shown renewed commitment to the idea of a developmental state and are now pursuing East Asian approaches to development. This renewed interest to deliver socio-economic progress along the lines of the East Asian experience follows the failure of pro-market reforms under the Washington Consensus. Turok (2010) argues that in East Asian development, governments have played a leading role in strengthening growth and spreading prosperity (Turok, 2010; Chang, 2008; Turok, 2008; Gumede, 2009; Parsons, 2009). A shift in thinking about economic functions of the state is influenced by the recent global economic crisis.

The traditional pro-market development approach where the market is considered as the best mechanism to allocate resources is no longer fashionable. Instead the move is towards more state intervention in the allocation of resources. This pro-market approach led to the global economic crisis which required state intervention to rescue failing banks in advanced economies to spur economic recovery through major financial stimuli costing some \$11 000 billion (Turok, 2010; BBC, 2009). Many less developed countries have become concerned about their resilience to external shocks such as unstable demand for their commodities, volatile energy and food prices, falling foreign direct investments (FDI) and reduced remittances from migrant workers following the recent global economic crisis (Turok, 2010).

The South African government's determination to pursue a developmental state is explained by the particular challenges it faces which include a high unemployment rate (Turok, 2010; OECD, 2008; International Labour Organisation [ILO], 2009) (two-third of its working-age adults are unemployed compared to two-fifths in other developing countries), low growth in self-employment and small and micro-enterprise sector (Turok, 2010; The Presidency, 2008b), large income inequalities, and distorted settlement patterns which trap poor communities in peripheral urban townships and remote rural areas (Turok, 2010:497; Harrison, Todes, and Watson, 2008; Van Donk, Swilling, Pieterse, and Parnell, 2008).

These problems are a reflection of the skewed structure of the country's economy which is characterized by a concentrated pattern of ownership, its narrow base dominated by mining and financial services, and the historic marginalization of the black population from many opportunities. Turok (2010) argues that the South African economy is sluggish by international standards and is skewed towards low-value consumer services such as retail, telecoms, security and health (Turok, 2010; Aron, Kahn, and Kingdon, 2009). Turok (2010) argues further that the country's trade deficit is worsened by rising imports to supply the consumer boom. Imports and the consumer boom are financed by short-term capital inflows rather than long-term investment in domestic production to

create jobs and to diversify exports (Turok, 2010; The Presidency, 2008b; Du Toit and Van Tonder, 2009). A growing demand for the country's basic commodities has strengthened the currency and damaged industrial output and jobs (Turok, 2010).

Turok (2010) and The Presidency (2008b) argue that structural challenges facing the country require socio-economic and institutional change. These structural challenges include: extreme social and spatial inequalities, limited economic dynamism, unchanged and outdated structure of the economy (The Presidency, 2009), state institutions operating in silos with inconsistent mandates (Turok, 2010; Public Service Commission, 2007, 2009; Harrison, Todes, and Watson, 2008), uneven capacity for strategic planning across spheres and sectors of government (Turok, 2010; The Presidency, 2008b), poor service delivery in poorer and remote areas (Development Bank of Southern Africa [DBSA], 2008; National Treasury, 2008), skills shortage, bottlenecks in infrastructure (Turok and Parnell, 2009), and lack of consultation with the civil society and business sector in policy matters (Turok, 2010; McLennan and Munslow, 2009; Public Service Commission, 2009).

SMME promotion is a key element of government's strategy for job creation and income generation and forms part of the development role of local governments in developing countries such as Brazil, Peru and Argentina. In South Africa the White Paper on Local Government of 1998 provides a policy framework around the developmental role of municipalities (DPRU, 2006). The White Paper on Local Government of 1998 identifies four defining characteristics of a developmental local government as follows: maximising social development and economic growth, integrating and co-ordinating, democratising development, and leading and learning (RSA, 1998). The White Paper further provides a framework within which municipalities must develop strategies to promote social and economic development for the communities (DPRU, 2006; RSA, 1998).

The White Paper identifies developmental outcomes for municipalities which include the provision of household infrastructure and services; creation of liveable, integrated cities,

towns and rural areas; local economic development; and community empowerment and redistribution (RSA, 1998). Further, the White Paper proposes integrated development planning (IDP) processes which are supported by legislative frameworks contained in such policies as the Municipal Systems Act (MSA) of 2000 and the Municipal Planning and Performance Management Regulations of 2001 (DPRU, 2006). In addition to developing own social and economic development strategies, Project Consolidate, in support of the White Paper on Local Government, requires municipalities to develop Service Charters which commit them to continued improvements in service delivery and to maintain specific service delivery standards.

The White Paper further proposes collaboration between local governments and the national departments of Trade and Industry and Local and Provincial Government (now called the Department of Cooperative Governance and Traditional Affairs) towards achieving their developmental mandates. This collaboration with respect to SMME development must be operationalized through establishment of Business Support Service Centres, LED pilot projects and spatial development initiatives. Further support in operationalizing LED is provided by the Inter-governmental Relations Framework Act (IGRFA) of 2005 which establishes a series of forums which harmonize the efforts of all spheres of government in relation to LED (DPRU, 2006). Other policies and regulations pertaining to local governments' development mandate and LED include the Constitution (1996), Public Finance Management Act (1999), Treasury Regulations (2005), Municipal Finance Management Act (2003), Municipal Structures Act (2001), A policy paper on Integrated Development Planning (2000), Municipal Property Rates Act (2004), Local Government Turnaround Strategy (LGTAS), Integrated Development Planning (IDP), DPLG LED Framework (2006), LED Guidelines to Institutional Arrangements (2000), Discussion document on LED Policy (2002), and the Policy Guidelines for implementing LED in South Africa (2005).

1.6.4 International context of local economic development

Lee, Lee, and Feiock (2012) argue that regional economic development competition can be inefficient and destructive because decisions of one subnational government can impose both externalities (spill-overs) on its neighbours. Regional economic development in the US is increasingly characterized by collaborative networks of multiple stakeholders within and across jurisdictions. Local actors join collaborative regional economic development networks for various reasons. The motivations and decision of these stakeholders play a crucial role in shaping and implementing regional collaboration. Lee et al. (2012) identify three primary factors which shape collaborative choices of local actors and these are: “the transaction costs reflected in the configuration of relationships in which an actor is embedded; the organizational similarities (homophily); and the resource dependencies that shape the local actors’ preferences for forming relationships with other specific actors” (Lee et al., 2012:547).

Cities have the authority and responsibility to attract business and investment into their jurisdictions to support their economy and tax base (Lee et al., 2012; Peterson, 1981). Local governments offer subsidies, tax breaks, land-use incentives, tax-exempt bonds, training funds, infrastructure investments, and customized incentive packages of financial assistance to attract new enterprises and to retain existing businesses. Externalities in the form of economic costs and benefits resulting from LED efforts of one jurisdiction affect its neighbours. Neighbouring jurisdictions benefit from positive economic spill-overs such as employment gains, spin-off investments, and agglomeration economies (Lee et al., 2012:548; Feiock, 2004). Lee et al. (2012:548) argue that business location choice is based more on the attractiveness of a region rather than on a specific jurisdiction.

Regional considerations influencing business location decisions include regional transportation infrastructure, availability of skilled workers, research and technology, education systems and social and cultural amenities (Lee et al., 2012; Porter, 2000). Spill-overs and inter-dependence among neighbouring jurisdictions for attracting new

business and investment drive cities or jurisdictions to share information. Information sharing enables jurisdictions to coordinate their efforts and to collaborate in attracting new business and investment for regional and local economic development (Lee et al., 2012).

In contrast Lee et al. (2012), Barltee and Steele (1998) and Sbragia (2000) argue that regional economic development is characterized by inter-jurisdictional competition which has a zero-sum effect on the economies of the jurisdictions and the region. Firms use their information advantage to exploit competing local governments (Lee et al., 2012; Feiock, 2002). Burstein and Rolnick (1995) and Lee et al. (2012:548) identify another disadvantage of inter-governmental competition as creation of economic rents that induce businesses to choose locations that do not minimize production costs, thereby producing a geographic distribution of new capital investments that is less efficient for regional economic development. Other disadvantages of inter-governmental competition include: limiting the capacity of local governments to solve common problems, leading to inequities and inefficiencies (Lee et al., 2012; Gordon, 2007), and increased traffic, overcrowded schools and pollution (Lee et al., 2012; Feiock, 2004; Greenstone and Moretti, 2003).

On the other hand collaboration among neighbouring jurisdictions is risky for regional economic development because it creates strong incentives for one jurisdiction to use shared information to its advantage over its partners. This opportunistic behaviour is driven by a local government's inclination to pursue tax benefits resulting from adding a firm locating in its jurisdiction to its property tax roll. As a result a generally held assumption is that LED is dominated by inefficient inter-governmental competition. However, the impressive benefits of targeted collaborative efforts include informal agreements and information sharing, inter-governmental agreements, creation of special districts, and regional partnerships (Lee et al., 2012:548). Three types of mechanisms used to enforce these collaborative alternative governance institutions are: centralized authority, mutually binding contracts or agreements and network 'embeddedness' (Lee et al., 2012:548; Feiock, 2009). 'Embeddedness' is the most

voluntary and self-organizing mechanism whereby an organisation is embedded in a set of social relations.

Schoburgh (2012) argues that LED in the Anglophone Caribbean policy systems is largely perceived as lying within the purview of central government departments or agencies. However, it has increasingly been associated with local government with the emergence of 'people-oriented approaches' to development that offer new propositions about how to respond to risks and opportunities brought by globalization. LED in the institutional context of local government pursues short-term objectives such as creation of market opportunities and redressing the disparities within national economies and long-term goals of social transformation (Schoburgh, 2012). Schoburgh (2012) supports the notion that local government is best suited to undertake the important role of development because of its close proximity to the ordinary citizens as compared to other tiers of government. A symbiosis exists between local government and local development and by extension LED, hence the assertion by Schoburgh (2012) that a developmental role for local government could have the effect of strengthening democracy and improving service delivery, thereby transforming the socio-political structure of local government.

1.6.5 LED in developing countries

LED is an integral part of decentralization which involves partnerships between local governments and various local stakeholders to manage local resources and stimulate employment and economy of a locality. These stakeholders include communities, community-based organisations, non-governmental organisations, the private sector, churches, business associations and unions (Hampwaye, 2008). LED aims to improve the quality of life of local residents, alleviate poverty, create job opportunities, improve skills and build capacity by managing and shaping economic change at the subnational level (Hampwaye, 2008). Hampwaye (2008), Rodriguez-Pose (2007) and the World Bank (2003) emphasize the importance of multi-actor, multi-sector and multi-level nature of LED by stating that it is a participatory, developmental process that

encourages partnerships among these stakeholders within a defined locality. Developing countries have recently focussed on improving local business environments and on promoting enterprise development as a means to achieve economic growth, job creation, improved welfare and poverty reduction (Rogerson and Rogerson, 2010; Hindson & Meyer-Stamer, 2007).

1.6.6 LED and job creation in South Africa

South Africa has experienced high levels of unemployment for decades despite periods of high economic growth in the mid-1980s, mid-1990s and mid-2000s. Robbins (2010) argues that national policy frameworks failed to create jobs and reduce unemployment. Larger city administrations favour economic growth oriented LED strategies, but recently they are also expected to tackle unemployment challenges (Robbins, 2010). Urbanisation in developing countries has led to unprecedented growth in urban settlements and subsequently an increasing concentration of economic activity in major urban settlements. However, the levels of unemployment in these countries remain high with high concentrations of unemployed, underemployed and informally employed people in major cities. Robbins (2010) argues that in most Southern African countries the majority of economically active people are found in informal employment sector compared to the formal sector which comprises a small percentage of the total employment figure.

South African cities have relatively higher levels of formal employment than most developing countries even though they still face high levels of unemployment and a significant number of people earning meagre incomes through informal economic activities. Lack of access to employment and income is the main contributor to persistent high levels of poverty in many cities in developing countries (Robbins, 2010; Kuiper & Van der Ree, 2005). Robbins (2010) and Clarke & Gaile (1998) argue that countries in North America and Europe pay significant attention to unemployment in urban spaces through labour market policies and initiatives at both national and municipal government level. In contrast, local governments in developing countries play

a minor role in developing labour market interventions aimed at addressing urban poverty and deepening the impact of pro-poor urban policies (Robbins, 2010; Devas, 2000).

The fear of labour market distortions resulting from government intervention could be cited as the reason for lack of labour market interventions by local governments in developing countries (Robbins, 2010; Brenner, 2006). Robbins (2010) argues that in developing countries local government intervention in labour market issues is advocated in areas of self-employment and household-based economic activity as a form of livelihood rather than wage employment. The second area of labour market policy where local government should intervene is in work opportunities linked to public sector capital projects and services in cities (Robbins, 2010; Helmsing, 2003; Lund & Skinner, 2004; Kuiper & Van der Ree, 2005). In South Africa provision of affordable services to the poor in accordance with such policies as the Reconstruction and Development Programme (RDP) (RSA, 1994) had both direct and indirect employment benefits (Robbins, 2010; Bond, 2003).

The drive by local governments in South Africa to initiate LED programmes comes from the need to address high unemployment levels (Robbins, 2010:532, Nel and Binns, 2003). While seeking to address unemployment through LED, it is essential to take a growth-oriented approach to make LED sustainable. This growth-oriented and pro-poor approach requires greater commitment of resources and targeting the needs of the poor (Robbins, 2010; Nel & Rogerson, 2005). Improved capacity of LED teams and more effective coordination with the private sector, rather than direct local government interventionist approaches are necessary to improve job creation initiatives (Robbins, 2010; Rogerson, 2009).

1.6.7 LED challenges in South Africa

Nel and Rogerson (2007) argue that LED has become associated with devolution and decentralization and localised responses to economic crises, job losses or new wealth-

generating opportunities. The South African 1996 National Constitution (RSA, 1996) together with government policies obliges local authorities to pursue LED and a local development intervention. The development gap increases as a result of differences in allocation of resources and capacity between urban centres and small towns and secondary centres. Allocation of resources and staff has enabled larger centres to implement growth and poverty relief strategies independently from the national government whilst smaller centres require more national government support and guidance (Nel and Rogerson, 2007).

An increasing number of developing countries are using LED and enterprise development as a strategy to create jobs, grow economies, improve welfare and reduce poverty (Rogerson and Rogerson, 2010). The LED Framework (RSA, 2006) in South Africa requires local governments to foster conditions that stimulate and enable the business environment (Rogerson and Rogerson, 2010). Constraints to private investment in the South African business environment include: crime, safety and security, infrastructure, the rising cost of doing business, skills shortage and limited working relationship between local authorities and local investors. In addition to the afore-mentioned challenges, Rogerson and Rogerson (2010) identify other constraints to country investments and favourable business climate in developing countries as: poor public governance, weak infrastructure, and policy and legal frameworks that are inconsistent, unstable and unpredictable.

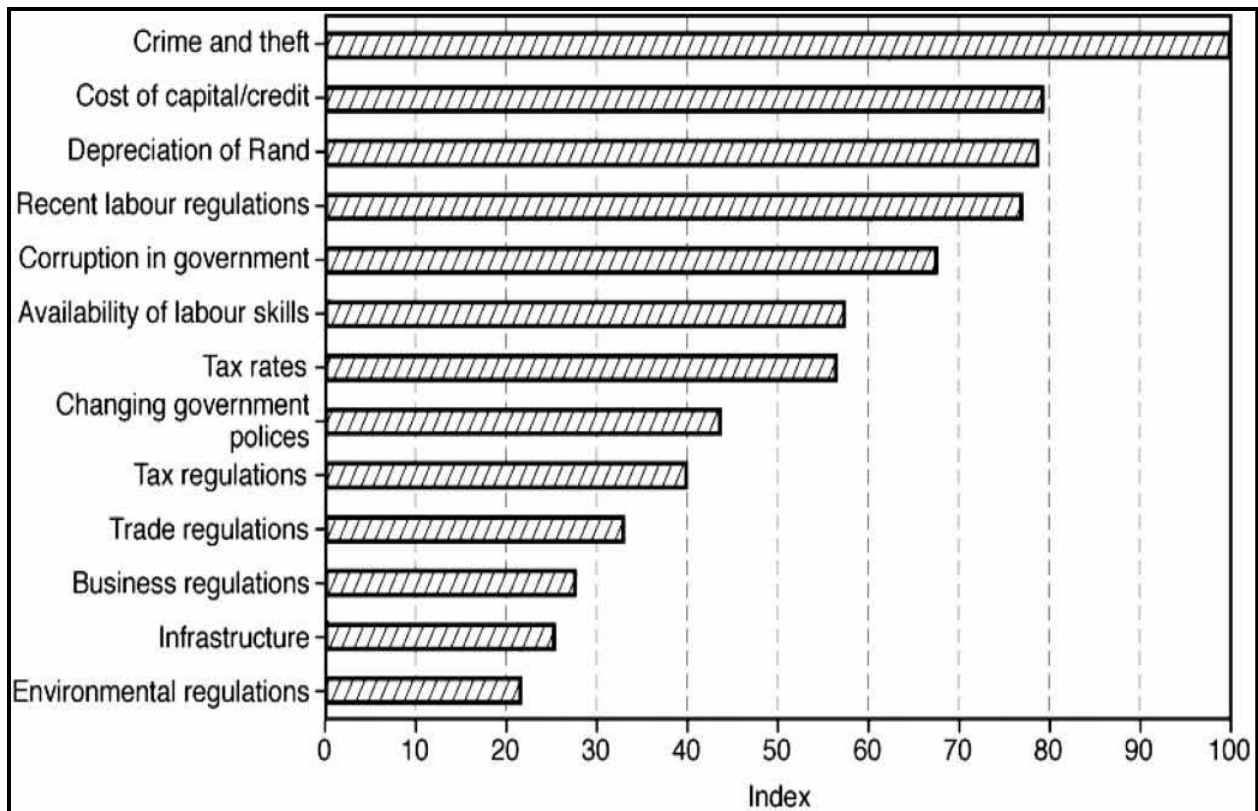
An attractive business environment on a national scale hinges on improved state–business relations, simplified business registration procedures, reform of labour regulations and property titling (Rogerson and Rogerson, 2010). Creating a favourable business environment contributes to upgrading a locality and strengthening its competitiveness. A favourable business environment has added incentives for business and government which include reduced cost of doing business, minimizing red tape, unleashing economic potential and attracting investment (Ruecker and Trah, 2007; Rogerson and Rogerson, 2010). An unfavourable local business environment characterized by “problematic governance patterns, cumbersome political guidelines,

laws and regulations and ineffective administration” may discourage potential investors from investing in a locality (Rogerson and Rogerson, 2010:3). Location decisions by potential investors are influenced by ‘productivity premiums’ in a locality e.g. agglomeration advantages, which are greater in larger centres than in smaller centres (Dollar, Hallward-Driemeier and Mengistae, 2005; Lall & Chakravorty, 2005; Lall & Mengistae, 2005; Rogerson and Rogerson, 2010).

The World Bank’s Investment Climate Assessment in South Africa points out four factors which discourage investors: (1) an unstable exchange rate, (2) high labour costs, (3) burdensome labour regulation, and (4) high costs of crime (Rogerson and Rogerson, 2010). Micro-enterprises in South Africa are most concerned about access to and cost of finance. The South African National government regards a conducive local business environment as a key requirement for establishment of flourishing local economies (DPLG, 2008; Rogerson and Rogerson, 2010). The South African National LED framework promotes creation of a conducive local business environment (Rogerson and Rogerson, 2010).

A survey conducted in 1999-2001 by the World Bank and the City of Johannesburg found the following factors to be major constraints to investment and economic growth in Johannesburg: crime and safety and security, cost of credit or capital, the depreciation of the rand, changes in labour regulations, and shortage of skilled labour. Environmental regulations, infrastructure, business and trade regulations were the least concerns for businesses seeking to invest and grow in the City of Johannesburg (see figure 1.1 below) (Rogerson and Rogerson, 2010).

Figure 1.1: FDI Constraints



Source: Rogerson and Rogerson (2010:580)

On the other hand, the survey found the following strengths about the City of Johannesburg as an investment location: quality of infrastructure, efficient service provision, and access to product inputs and final markets. Johannesburg derives its strength as a conducive investment location from the cumulative impact of the productivity-enhancing capacities of cities and regions through agglomeration. Johannesburg has the largest cluster of headquarter offices in Africa and South Africa's biggest and richest commercial and industrial market. This market includes the largest cluster of financial services and information technology enterprises in Africa, a thriving sector of knowledge-based activities, and an expanding tourism economy. Enterprises

benefit from the clustering of dynamic and diverse firms in Johannesburg which allows them operational flexibility to respond to the uncertainty and challenges of a complex business environment (Rogerson and Rogerson, 2010; Scott, 2002). Rogerson (2009) argues that public-private sector partnerships form the foundation for successful LED planning.

1.7 PROBLEM STATEMENT

The present study seeks to identify and analyse factors affecting successful implementation of LED in South Africa. The study investigates the impact of availability of resources, skills, capacity and other influences such as cooperative governance and inter-governmental relations (IGR) on LED. Cooperative governance and inter-governmental relations (RSA, 1996) are particularly important given the constitutional obligation of both the national and provincial governments to support and provide an oversight role over local governments (RSA, 1996). The amount of resources available to local governments in terms of revenue is crucial in determining the level of capacity they possess to implement LED. Capacity constraints could also impact negatively on the planning processes such as IDP and formulation of LED strategies.

LED aims to achieve economic growth (Lwanda, 2011) and job creation among its objectives. Business and civil society play a major role in the economy of a locality in that they provide job opportunities and labour respectively while trade and commerce are key components of the economy. The inter-connection among government, business and civil society increases the complexity of LED since its objectives impact directly on all stakeholders. Government should play a central and facilitative role to ensure successful implementation of LED. Government role in LED includes coordinating and integrating initiatives in support of LED and in creating both a legislative and an enabling environment conducive for other stakeholders to contribute optimally to LED. These factors require strategic and competitive alignment with local, provincial and national priorities to derive maximum value from all LED efforts. However, such alignment can only be achieved if the actual nature and magnitude of

impact these factors have on LED is known and understood. Analysis of governance and best practices nationally and internationally could provide guidance in addressing challenges facing LED implementation in South Africa. The present study therefore seeks to develop an in-depth understanding of LED and the factors affecting its implementation. The study intends to develop a model framework that will improve the implementation of LED in any South African locality.

1.8 AIM OF STUDY

The aim of the present study is to develop a comprehensive understanding of LED in South Africa and of the role of local government in promoting, facilitating and creating a favourable environment for LED.

1.9 PURPOSE OF THE RESEARCH

Three common purposes of social research are exploration, description and explanation. The present study employs a descriptive research approach to describe the relationship between local government and local economic development in South Africa. According to Babbie and Mouton (2001), a major purpose of many social scientific studies is to describe situations and events. In descriptive studies the researcher first observes and then describes what was observed. Scientific descriptive studies are more accurate and precise because the scientific observation is careful and deliberate (Babbie and Mouton, 2001).

1.10 RESEARCH OBJECTIVES

The main goal of the present study is to understand the extent to which local government contributes towards creating an attractive business environment for LED. LED is one of the five Key Performance Areas (KPA's) of local governments as mandated by the White Paper on Local Government of 1998 and the Constitution

(1996). On the other hand LED seeks to attract direct capital investment in a locality and to create jobs for the citizens of a locality. Therefore, as an extension of the main goal of the study, the following objectives will be pursued in the present study:

- To establish the challenges faced by stakeholders to successfully implement LED;
- To establish the role of local government in making LED successful from a legislative and policy perspective;
- To identify potential risks and opportunities linked to LED; and
- To identify strategic considerations required for LED success i.e. key success factors.

1.11 CONTRIBUTION TO THE BODY OF KNOWLEDGE

The key role of local government in promoting and facilitating LED is the provision of a favourable regulatory and legislative framework to promote LED and to create an attractive business environment for business expansion and investment. The main contribution of the study in the field of local economic development is to provide an in-depth and thorough analysis of the legislative and policy environment in South Africa and abroad to establish both the constraints and drivers of LED. In this manner, the study seeks to identify key success factors and priority areas in the local government and economic environment which are crucial in driving and promoting business growth and increasing employment.

A favourable legislative environment for local economic development has a wide impact on other critical success factors for business growth and on attracting investments in a locality. Such legislation includes that relating to the locality's tax regime, formation of collaborative networks, labour relations, access to municipal infrastructure such as energy, transportation, and telecommunications, rates and services policy, and education and training, among others.

1.12 RESEARCH DESIGN AND METHODOLOGY

The preceding section identified key constraints and success factors which are to be addressed and advanced to achieve Local Economic Development. However, in South Africa, as mentioned in the problem statement above, these constraints and success factors are not thoroughly explored and addressed to ensure an integrated and effective LED strategy for the country. The next section will explain and describe key aspects of research methodology that the study employed to address these challenges.

This section on research design and methodology presents a detailed discussion on the research design and various aspects of methodology employed in the study to address the research question and objectives outlined above. These aspects include research design, methodology, purpose of research, unit of analysis, data collection strategy, literature study, sampling design, credibility of data, data analysis and research ethics.

1.12.1 Research design

Babbie and Mouton (2001) define research design as a plan or blue print of how research is conducted. It involves planning and designing a strategy for finding out facts about a social phenomenon. A research strategy clearly specifies aim, objective, and goal of research and the best method and procedure employed to achieve the research aim. In addition, research design entails specifying the measurement, unit of analysis, sampling, data-collection and data-analysis methods, and the sequence employed in conducting research. Primary data refers to new data collected by the researcher for the research at hand and over which the researcher has control. In contrast, secondary data is data that already exists when research is being conducted. In other words, secondary data is based on what was observed initially by other researchers and writers. Examples of secondary data include existing data such as census data or documents and texts that were produced previously (Babbie and Mouton, 2001).

1.12.2 Research methodology

A qualitative paradigm refers to the generic research approach in social research that is based on the notion of an 'insider perspective' in social action. Babbie and Mouton (2001) argue that qualitative research always seeks to study human action from the insider's perspective, also known as the "emic" perspective. The goal of qualitative research is to describe and understand rather than to explain and predict human behaviour. Qualitative research therefore puts considerable emphasis on methods of observation and analysis that stay close to the subject of research. Such methods include unstructured interviews, participant observation and the use of personal documents (Babbie and Mouton, 2001; Horn, 2012). Analysis of qualitative data entails the use of grounded theory (Buchanan and Bryman, 2009; Babbie and Mouton, 2001; Symon and Cassell, 2012) and other more inductive analytical methods of research.

Other types of research which apply qualitative research approach include ethnography, field research and naturalistic research (Babbie and Mouton, 2001). The present study takes a qualitative approach to research as it seeks to describe and understand the relationship between local government and local economic development with respect to their institutional and functional roles. The study takes an emic or insider's perspective to research in that the views of practitioners, scholars and other relevant stakeholders are being examined and analysed to develop a true picture of the actual situation relating to the relationship between local government and local economic development. The source of data for analysis and examination in the present study comprises a wide range of literature which includes policy documents, legislation, academic journal articles, research papers and reports, and both government and institutional publications and reports.

The study takes an inductive approach, also known as 'bottom-up' reasoning whereby generalisations are made from individual instances. This approach involves observing subjects of research, looking for patterns, building a tentative theory and then testing that theory to provide generalisations about behaviour. On the other hand, a deductive

research approach, also known as ‘top-down’ reasoning involves analysing general conceptions and breaking them down to define specific individual instances of behaviour. Deduction is the direct opposite of induction. It starts with a theory and then makes an hypothesis about a specific matter. Observations are then made to test the hypothesis to confirm or refute the hypothesis (Horn, 2012; Buchanan and Bryman, 2009).

1.12.3 Unit of analysis

The unit of analysis refers to the object, phenomenon, entity, process or event being investigated in the study. Babbie and Mouton (2001) distinguish between empirical and non-empirical problems based on the type of unit of analysis being studied. A study is empirical if the unit of analysis is a real-life object, also known as a World 1 object such as human beings, historical events or social programmes. A non-empirical or conceptual study involves units of study referred to as World 2 objects such as a study of scientific literature, theories, models, concepts or notions. Babbie and Mouton (2001) point out that units of analysis in a study are typically also units of observation. Units of analysis are therefore objects being observed and examined in order to construct summary descriptions of all such units and to explain differences among them.

Babbie and Mouton (2001) identify examples of units of study as individuals, groups, organisations and institutions, social artefacts or cultural objects, social actions, and interventions. Interventions consist of human actions that involve deliberate and sustained interventions that are programmatic in nature. These interventions are sets of actions and decisions that are structured in such a way that their successful implementation would produce clearly identifiable outcomes and benefits. Examples of interventions as units of study include courses and programmes, legislation, policies, systems and plans. The present study investigates interventions with respect to local economic development and local government and the related legislation and programmes.

1.12.4 Data collection strategy

The present study uses descriptive research which describes the current state of affairs at the time of the study (Salkind, 2003; Babbie and Mouton, 2001). The type of data collection method employed by the present study is document or literature study of selected literature on LED and local government.

1.12.5 Literature study

A variety of literature on LED and local government will be consulted and reviewed to gain in-depth knowledge and understanding of the role of LED and its relationship with local government. Further, the consulted literature will help the researcher understand the challenges faced by local governments and other key stakeholders in successful implementation of LED. This literature will include scientific journals, conference papers and research reports by various stakeholders which include government institutions, departments, and research institutions.

1.12.6 Sampling design

The following aspects of sampling design are discussed in this section: population, sampling method and sampling size.

1.12.7 Population and size

According to Babbie and Mouton (2009), Horn (2012) and Salkind (2003), a population for the study is that group about whom we want to draw conclusions. A sample, which is a representative group of the whole population of interest, is selected for a study since it is almost impossible to study and make observations about every member of the population (Babbie and Mouton, 2009; Horn, 2012). The target population for the present study consists of literature on local government and LED from various sources.

1.12.8 Sampling method

According to Babbie and Mouton (2009) and Horn (2012) there are two types of sampling methods namely; probability and non-probability sampling. In Probability sampling, every member of the population has a known, non-zero probability of being selected. Examples of probability samples include simple random samples, stratified random samples, systematic and cluster (geographic) samples. Non-probability sampling involves selection of sample units on the basis of personal judgment for reasons of convenience and economy (money and time). Examples of non-probability samples include reliance on available subjects, purposive/judgmental, snowball/accumulation, quota, self-selection and convenience samples (Barbie and Mouton, 2009:166-200). This study will employ purposive/judgmental type of non-probability sampling in order to collect data from selected literature on LED and local government. The data sample for the current study is the literature that includes policy documents, legislation, academic articles and sector reports on Local Economic Development both domestically and internationally, with more emphasis and relevance on the South African context of LED.

1.12.9 Credibility of data

Babbie and Mouton (2009) define credibility as the determination of the extent of compatibility between the constructed realities that exist in the minds of the respondents and those that are attributed to them. Various procedures used to achieve credibility include prolonged engagement, persistent observation, triangulation, referential adequacy, peer debriefing and member checks. Credibility of data in the present study is ensured by consulting only credible and recognized scientific literature sources on LED and local governments such as academic journals and published research articles and reports.

1.12.10 Data analysis

Data collected from various types of literature will be organized, categorized and then interpreted to develop a coherent and comprehensive understanding of the role of local government in successfully implementing LED in the country. In addition, analysis of this data will provide important insight into the challenges and opportunities faced by local governments in their implementation of LED. For qualitative data (literature study) “...analysis proceeds by extracting themes from evidence and synthesizing data to present a coherent and consistent picture” (Neuman, 2000:419). Data analysis will enable the researcher to “...draw conclusions that reflect the interest, ideas and theories that initiated the enquiry” (Neuman, 2000:419). Additionally, the researcher will use the conclusions reached to discuss implications and make recommendations which may include what risks should be mitigated in the future and possible actions that might be taken in support of policy goals (Babbie, 2001).

In the chapters that follow the study explores various sectors of the local economy and policy initiatives in place to establish the role and impact of these factors on LED in South Africa. In addition, local government interventions in the country as well as best practice standards and strategies in other countries such as England and China are explored to identify potential measures and recommendations for implementation in South Africa. Lessons learnt from successful LED initiatives in other countries such as the US are then explored for potential adaptation and integration into the South African LED strategy. Also, areas where challenges are experienced in the South Africa LED context are explored in order to identify and understand these challenges and to determine how best to address them.

1.12.11 Research ethics

Research ethics refers to norms and standards of behaviour that guide human’s moral choices about their behaviour and their relationships with others and ensures that the respondents are not harmed by research activities (Horn, 2012; Cooper and Schindler,

2003; Symon and Cassell, 2012). Unethical research activities include “...violating nondisclosure agreements, breaking respondent confidentiality, misrepresenting results, deceiving people, invoicing irregularities and avoiding legal liability” (Cooper and Schindler, 2003:120). According to Babbie and Mouton (2009) ethics in social research is about observing “...general agreements among researchers about what is proper and improper in the conduct of scientific inquiry” (Babbie and Mouton, 2009). The present research will espouse the principles of ethical research in order to present a credible and reliable argument and conclusion which will not impact negatively upon or harm any of the stakeholders of LED affected directly or indirectly by this study and its findings.

The current study makes efforts to ensure that only academic and credible literature sources are consulted for analysis. Where analysis and critical assessment are made, careful consideration is taken to ensure balanced and objective presentation of facts. The current study is undertaken within the confines of the research scope and methodology discussed in this chapter. Efforts are made to ensure that findings and recommendations of the study are presented accurately and objectively.

1.13 CHAPTERS OUTLINE

This section provides an overview of the proposed structure of the dissertation and key focus areas covered in each chapter in pursuit of the research aim and the objectives identified as critical for the study. The proposed layout of the dissertation consists of six chapters which are: introduction, international perspectives on LED, South African context of LED, local government and LED, case studies on the Gauteng and Northern Cape provinces and concluding remarks.

Chapter 1: Introduction

An overview of chapter 1 is discussed in paragraph 1 above.

Chapter 2: International perspectives on LED

Chapter two discusses LED in the international context and seeks to provide a detailed background on this subject from an international perspective which could serve as a point of reference or comparison for the conceptualisation and practice of LED in South Africa. A discussion of international perspectives on LED seeks to identify best practices and areas of opportunity in relation to LED which could be of benefit to South Africa.

Chapter 3: South African context of LED

Chapter three provides a detailed discussion and analysis of LED in South Africa, including its formulation, planning, stakeholders, constraints, opportunities and the supporting or enabling legislative framework. Further, discussion of LED in the South African context seeks to identify and recommend potential solutions, strengths and opportunities for LED in South Africa by taking into consideration the unique and diverse nature of challenges faced by government and its stakeholders in implementing LED successfully. The chapter lastly analyses and discusses key focus areas of LED regarding sectors and initiatives used as key drivers of economic growth and job creation. These sectors include infrastructure development, business incentives, tax rebates or exemption, subsidies, research and technology, enterprise development, public-private partnerships, empowerment, education and skills development, business incubation, preferential procurement processes, and strategic partnerships and business development initiatives.

Chapter 4: Economic Sectors and LED

The key focus of Chapter 4 is on the mining sector as one of the main economic sectors contributing significantly to the country's GDP and foreign currency earnings. The mining sector has critical and strategic development importance to the economy of the country in general and to the localities where mining operations are undertaken in particular. Mines are key contributors to socio-economic development objectives of

municipal jurisdictions of these mining towns and thus play an important role in local economic development and planning processes of these jurisdictions. This chapter focuses on the role of the mining industry in promoting business growth and improving socio-economic conditions for localities and its people through poverty alleviation, enterprise development and job creation, among other development initiatives.

Chapter 5: Strategic considerations: Local government and LED

Local government in South Africa has a developmental role and is mandated and empowered by a range of policies and legislation to lead the LED process and other related planning processes such as IDP. Local government plays a central and leading role in the formulation, planning and implementation of LED and is therefore required to be at the forefront of all economic and social development processes in localities. However, given the challenges of inequality, high unemployment, limited resources, poor infrastructure, skills shortage and skewed economy, local government finds it difficult to grow the local economy, create jobs and alleviate poverty as envisaged by its developmental mandate. It is therefore crucial to find measures and means of strengthening local governments effectively and adequately to address LED constraints. Chapter 5 draws on the discussion and analysis of various factors as presented in preceding chapters and presents a summary of lessons learnt from such discussions. Further, the chapter seeks to highlight LED best practices which could be adopted in South Africa, opportunities for growth and improvement in the practice and formulation of LED, and potential solutions to the challenges faced by local governments in successfully implementing LED in South Africa.

1.14 GRAPHIC REPRESENTATION OF THE STUDY

Figure 1.3 below presents a graphical overview of the study.

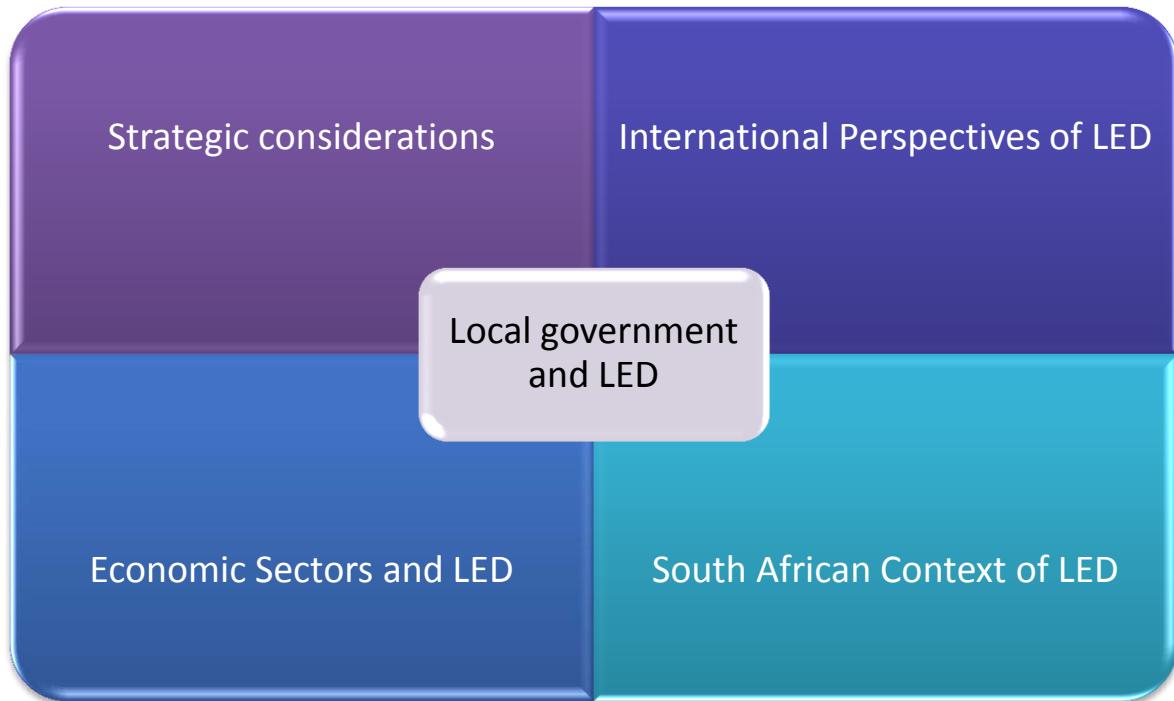


Figure 1.3: Graphic representation of the study

Source: Author

Chapter 2: International perspectives on LED

2.1 INTRODUCTION

Chapter two discusses LED in the international context and seeks to provide a detailed background on this subject from an international perspective which could serve as a point of reference or comparison for the conceptualisation and practice of LED in South Africa. A discussion of international perspectives on LED seeks to identify best practices and areas of opportunity in relation to LED which could be of benefit to South Africa. The chapter begins with a discussion on the role of development corporations in Canada in local economic development. Discussion of development corporations in Canada is pertinent to South African socio-economic development since these corporations are part of land claims agreements for the Aboriginal Inuit people in Northern Canadian regions. In South Africa the new land reform policy which seeks to redistribute land ownership to the historically disadvantaged groups would find the Canadian model relevant since the two initiatives have common objectives of empowerment of the local people and local economic development. In addition, these policies seek to achieve economic transformation and the redressing of past imbalances.

The chapter then focuses on tourism as a local economic development strategy with particular focus on backpacker or budget tourism which has potential to empower and benefit local people. This is due to its low capital requirements, pro-poor, bottom-up, small scale, local ownership nature and the general increase in international tourism, especially 'new tourism' which includes eco-tourism and independent travel. This section is followed by a discussion on Global Production Networks (GPNs) which are analytical frameworks designed to simplify the complexities and processes of economic globalization and development.

The remainder of the chapter focuses on local economic development strategies such as business incubators, local economic development indicators and policies, and regional development agencies. The study unpacks the outcomes and effects of these strategies and policies as developed and supported by local and regional

authorities to boost economic growth and business performance in their jurisdictions. The chapter concludes by summarising the impact, shortcomings and effectiveness of different local economic development policies and strategies in the international context.

2.2 DEVELOPMENT CORPORATIONS

Fugmann's (2009) study of development corporations discusses economic development from a regional perspective in two of Canada's regions namely; Nunavik (Northern Quebec) and Nunatsiavut (Northern Labrador). In these regions economic development aims to create an economic base and to promote economic self-reliance for local people and involves local grassroots economic development and creation of development corporations. Rodriguez-Pose and Storper (2006) argue that development of communities and societies yield positive economic externalities. Community Development Corporations (CDC) have a positive effect on the revitalization of urban communities (Johnson, 2004). The mandate of corporations in Canada's northern regions is to invest capital into businesses and economic projects to create jobs and income for the locals.

The creation of development corporations was triggered by the regional land claim agreements for the Inuit (Aboriginal people) in the Arctic region of Canada. These agreements include the James Bay and Northern Quebec Agreements of 1975, the Nunavik Inuit Land Claim Agreement of 1996, the Inuvialuit Final Agreement (1984), Nunavut Land Claims Agreement (1993), Labrador Inuit Land Claim Agreement (2005), and Nunavik Land Claim Agreement (2006). Creation of an economic base and promotion of economic self-reliance for the Inuit beneficiaries is one of the central purposes of these regional agreements. Benefits for the Inuit included in these agreements in order to achieve these goals of economic empowerment include cash compensation, ownership of land, surface and sub-surface resources, co-management rights, resource royalty shares, traditional hunting and fishing rights, provisions for land use planning, programmes for economic development, training and job creation as well as policies for Impact and Benefit Agreements.

Impact and Benefit Agreements must be negotiated for approval of resource development projects in the Inuit settlement areas. These policies seek to allow the Inuit to continue with their traditional activities and lifestyles while facilitating their integration into the modern Canadian economy in order to improve their living conditions and reduce high unemployment rates in the northern communities. Fugmann (2009) argues that these policies of empowerment have not achieved the desired outcomes as evidenced by significant deficiencies in education, employment, income, housing, health, and living standards in the northern Inuit regions. The Inuit in the Canadian North created a variety of local economic initiatives to overcome these deficiencies, including private sector initiatives, co-operative movements, and development corporations. Fugmann (2009) discusses the effectiveness of development corporations in improving the economic situation of the Inuit in their respective regions, the type of economic projects and socio-economic programmes in which they invest, and the returns and benefits accrued to the Inuit beneficiaries in terms of improvement of living conditions and local job creation.

There are seven Inuit development corporations in Canada, one in every Inuit Land Claim settlement area as well as one in every sub-region in Nunavut. Fugmann (2009) defines these development corporations as a particular form of corporation possessing all characteristics of a corporate business. The main function of a development corporation is to separate the daily business decision-making from politics. A development corporation is expected to concentrate on profitability, growth, long-term survival and job creation in the conduct of its business in line with the broad objectives and policy guidelines determined by the political leaders. Members of the Inuit organizations are the shareholders of the development corporation and control the corporation by electing a board of directors. The Inuit development corporations are mandated to invest the capital which they derived in part from the regional agreements into companies to create economic and business opportunities. Job creation and income generation are expected to increase through these economic and business opportunities.

Development corporations receive capital funding with the directive or mandate to maximize returns for the Inuit beneficiaries by promoting business development. Other development corporation in Nunavut and Nunatsiavut were established as

economic arms of their regional Inuit organizations well before the signing of their land claim agreements. Therefore these development corporations received their initial investment capital through their regional organizations and outside sources. The Inuit development corporations have had varying degrees of success since their establishment. The greatest achievement of the corporations has been their ability to establish wholly Inuit-owned subsidiary corporations or investments in various joint ventures and other types of business partnerships to provide revenue streams for the corporation and to create jobs for the Inuit of their region.

Main areas of investment by these corporations is largely in essential services industries of the North including airlines and marine shipping companies, companies providing services to mining, tourism, and traditional resource-based industries like commercialization of country foods and the fishing industry. In 1994 all four Inuit regions established the Canadian Inuit Business Development Council as an initiative to cooperate in the analysis of potential business opportunities in the Arctic region. This process involved the establishment of pan-Arctic Inuit-owned businesses and the undertaking of joint ventures with non-Inuit private sector businesses. The Canadian Inuit Business Development Council led to the formation in 1994 of the Pan Arctic Inuit Logistics (PAIL), the very first pan-Arctic Inuit business enterprise.

PAIL partnered with a southern-based company ATCO Frontec and jointly they successfully bid for a five-year operations and maintenance contract for the North Warning System (NWS) radar sites in Canada, including 47 radar sites and five logistics support centres, and support facilities in North Bay and Ottawa, Ontario. In 2001 the two companies jointly established a jointly-owned Nasittuq Corporation, which led to the renewal of their contract with NWS. The jointly-owned company employed a large number of people. In 2007 the company employed 258 permanent employees, of which 18.6% were Inuit beneficiaries from the four land claims regions. The company employed a total of 355 employees, including short-term contracts and summer work positions, of which 55.2% were Inuit.

The above case study on development corporations is relevant to the South African LED context particularly given the existence of similar initiatives and historical

contexts. In South Africa, a land restitution and redistribution programme of the Department of Rural Development and Land Reform should be linked to the economic empowerment and development programmes of development corporations such as the Industrial Development Corporation (IDC) and the Public Investment Corporation (PIC) to create synergies and to maximise impact on income generation, job creation and socio-economic development. In this way, direct and indirect benefits accruing from these initiatives will complement, strengthen and promote LED efforts driven by local governments.

2.3 TOURISM AND LOCAL ECONOMIC DEVELOPMENT

Tourism has the potential to contribute to local economic development through the creation of employment and generation of income for local people. This potential is particularly evident and significant in developing countries which receive 690 million international arrivals according to the 2003 World Tourism Organisation data. Backpacker tourism, a subsector of international tourism could serve as a channel for local people to enter this globalised industry as shown in Hampton's (2003) study on the city of Yogyakarta in Java, Indonesia. Backpacker tourism is pro-poor, bottom-up, small scale form of tourism with the potential to transform the lives of the local poor in urban areas. This form of small scale, locally owned tourism business has low capital requirements and therefore may serve as a useful component of LED for poor communities.

In addition, small scale tourism development is an effective local response to the effects of globalization such as increasing flows of international tourists in developing countries. International tourism is one of the world's fastest growing and largest industries despite the dampening effects on demand of 11 September 2001 terrorist attacks in the USA. Hampton's (2003) study examines whether or not international trade flows have the potential to result in the marginalisation of local people, especially in less developed countries (LDCs). In 2001 international arrivals around the world exceeded 696 million (Hampton, 2003). Tourism represents large international flows of people, with accompanying volumes of goods and services.

Backpacker tourism, a subsector of international tourism could provide a way for locals in LDCs to enter this industry as a form of LED.

According to Butler's life-cycle model of tourism development, tourism becomes increasingly capital-intensive with large firms becoming involved in the construction and operation of hotels. As a result local ownership and involvement decreases and local people become increasingly marginalised as transnational tourism grows. In many LDCs the overall effect of globalization has been an acceleration of conventional mass international tourism and increasing vertical integration of tourism enterprises which are often foreign-owned. In Indonesia, local ownership of several resorts in Lombok and Bali has been replaced with ownership by foreign owners. Hampton's (2003) argues that backpacker tourism as a subsector of tourism has been ignored by most government planners. Nonetheless backpacker tourists continue to travel in significant numbers to LDCs. Conventional mass tourism is an industrial process of mass production with global flows of tourists forming part of a global market dominated by large firms and transnational corporations (TNCs), which are giant business organisations operating multiple lines of businesses in various parts of the world (Dicken and Malmberg, 2001; Hampton, 2003). Tourism TNCs benefit from economies of scale and scope, with increasing vertical integration and concentration of ownership.

The values of Western industrialised societies are reflected in its tourism which is characterised by a declining interest in places visited and a 'collection' mentality where tourists visit once, and then do not revisit. On the other hand 'new tourism' includes some forms of eco-tourism; backpacker tourism and independent travel which are completely different from Fordist conventional mass tourism. 'New tourism' is post-Fordist in its production i.e. small scale and niche tourism. This form of 'new tourism' creates opportunities for local ownership and employment in host communities of the LDCs. 'New tourism' may create less employment per room than mass tourism, but accommodation ownership tends to be locally owned. In addition, in conventional mass tourism such as in hotels, expatriates tend to hold managerial and skilled positions, with less skilled employment (OECD, 2004) offered to the locals. In contrast, in 'new tourism' more ownership and managerial positions tend to be held by locals. Small scale establishments characteristic of 'new tourism' such as

backpacker tourism do not require complex operational requirements, thus have low barriers of entry. Thus, backpacker tourism could be a way of promoting local economic development i.e. employment and enterprise creation in LDCs (Hampton, 2003).

2.4 GLOBAL PRODUCTION NETWORKS AND LED

In all studies of development throughout the world economies, including the East Asian 'miracle', the state has always been seen as the central agent in development. The analytical space given to other development agencies such as labour, gender and social movements and international agencies such as the International Monetary Fund (IMF) has been limited. Henderson, Dicken, Hess, Coe and Yeung, (2002) argue that some analysis of development has dealt with foreign investment and development with particular focus on transnational corporations (TNCs). However, such analysis has done little to probe organizational dynamics of TNC subsidiaries as they emerge, evolve and impact on the economies. Domestic firms have received very little attention in this analysis, whether they are associated or not with foreign companies (Henderson, Dicken, Hess, Coe and Yeung, 2002).

Global Production Networks (GPNs) (Henderson, Dicken et al., 2002; Coe, Hess, Yeung, Dicken and Henderson, 2004) are analytical frameworks that help us understand the complexities and processes of economic globalization and development more effectively. GPN provides a better analysis of the changing international distribution of production and consumption and the viability of different development strategies to which they relate. In the past three decades a plethora of studies of global economies emerged using various approaches to the concepts of chains and networks. The value chain or value-adding chain concept is used in industrial economics to refer to sequential and inter-connected structures of economic activities, with each link or element in the chain adding value to the process. Value is defined in terms of the pay-off to the firm.

Henderson et al. (2002) argue that value chains as conceptualized by Porter have little relevance to the study of economic development because it is bounded by the

firm or inter-firm networks and pays no attention to issues of corporate power, the institutional contexts of firm-based activities, or the territorial arrangements in which the chains are embedded. However, Henderson et al. (2002) emphasize the importance of *filiere*, which is a system of agents producing and distributing goods and services for the satisfaction of the final demand. *Filiere* provides a structured understanding of economic processes within production and distribution systems. The main objective of this concept is to map commodity flows and to identify agents and activities within the *filiere*. In this way hierarchical relationship between agents can be identified, and this allows for a detailed analysis of the dynamics of economic integration and disintegration. (Fuller, 2008; Henderson et al., 2002)

Gary Gereffi's global commodity chain (GCC) is the most useful chain conceptualization of economic activities. This conceptualization focuses on the dynamics of global organization of production and has particular affinity with the concept of 'division of labour' (practiced in the 1970s and 1980s) and its economic and socio-spatial consequences. This conceptualization attempted to operationalize some of the world-system categories for the empirical study of cross-border, firm-based transactions and their relation to development. Gereffi et al. (1994:2) in Henderson et al. (2002:440) define GCCs as consisting of

“sets of interorganizational (sic) networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world-economy. These networks are situationally specific, socially constructed, and locally integrated, underscoring the social embeddedness (sic) of economic organisation”.

Sturgeon (2001) in Henderson et al. (2002) highlights the differences between chains and networks by emphasizing that chains are a representation of the vertical sequence of events leading to the delivery, consumption and maintenance of goods and services. Further, in this representation or map it is important to recognise that various value chains often share common economic actors and are dynamic in that they are reused and reconfigured on an on-going basis. On the other hand, networks emphasize the nature and extent of the inter-firm relationships that bind sets of firms into larger economic groupings. Henderson, Dicken, Hess, Coe and Yeung,

(2002:442) identify the major weakness of the chain approach as its conceptualization of production and distribution process as being vertical and linear. Such processes should in fact be conceptualized as highly complex network structures in which there are intricate links.

These vertical, horizontal, and diagonal links in the network structure represent relationships between and among system agents and form a multi-dimensional, multi-layered matrix of economic activity. An explicitly relational, network-focused approach is required to better understand production systems. The actor-network theory (ANT) is an example of such approach and emphasizes the relationships between objects and agency in heterogeneous networks. It further highlights that entities in networks are shaped by their relations and connectivity to other entities. ANT rejects traditional dualism which emphasizes traditional global-local and structure-agency relationships. Further, it conceptualizes networks as hybrid collectives of human and non-human agents, thereby allowing consideration of important technological elements that underlie and influence economic activities. Henderson et al. (2002) argue that ANT's contribution to the analysis of economic development is constrained by its lack of appreciation for the structural preconditions and power relations that shape production networks.

Ernst and Kim (2001) in Henderson et al. (2002:443) define global production networks (GPN) as an organisational innovation that "combines concentrated dispersion of the value chain across firm and national boundaries, with a parallel process of integration of hierarchical layers of network participants". Firms establish GPNs in this manner in order to access flexible, specialised suppliers in lower-cost locations. GPN supersedes the TNC as the most effective form of industrial organization. The shift to GPN emerged in response to the three elements of globalization namely; the increase of liberalisation policies, the rapid uptake of information and communication technologies, and the onset of global competition.

Dieter Ernst identifies three problems which have hindered research in GPNs (Henderson et al., 2002). First, he points out that research focusses narrowly on the role of flagship firms within the GPN and it ignores network suppliers whose spatial location and 'relationality' are not remote from the flagship. Second, research

overlooks a wide range of service functions such as design and marketing that are crucial to the viability of GPNs, in mapping the dispersion of production units. Third, research is preoccupied with formal R&D and technology transfer, which may preclude appreciation of the importance of diffusion of less codified forms of knowledge. Ernst's research on GPNs emphasizes the potential for different forms of knowledge ('embrained', embedded, and 'encultured') to be diffused from GPNs to stimulate local industrial upgrading i.e. local economic development in developing countries.

Henderson et al. (2002) define GPN as a conceptual framework that is capable of grasping the global, regional and local economic and social dimensions of processes involved in many forms of economic globalization. They continue to state that GPN is a nexus of interconnected functions and operations through which goods and services are produced, distributed and consumed. Furthermore GPNs integrate firms into structures which blur traditional organisational boundaries through development of diverse forms of equity and non-equity relationships. GPNs also integrate national economies in ways which have enormous implications for their wellbeing. GPNs transcend state boundaries in highly differentiated ways, influenced to some extent by regulatory and non-regulatory barriers and local socio-cultural conditions, to create structures that are globally unrestricted (Henderson et al., 2002; Coe et al., 2004).

2.5 BUSINESS INCUBATION

Business incubation (Hacke and Dilts, 2004; Marley and McNamara, 1996) through support of young and innovative ventures is considered worldwide to be an effective measure to promote economic growth, hence it forms part of most local economic development policies (Rice, 2002; Pena, 2004; Schwartz, 2011). It is commonly assumed that these businesses will grow after graduation from incubation. However, data regarding the performance of these businesses after graduation is almost non-existent. Schwartz (2011) uses long-term employment and sales measures as performance indicators to assess the performance of these businesses after

graduation from incubation. The findings of Schwartz's (2011) study contradict the presumption of sustainable and strong firm growth beyond incubation.

Cities and municipalities have high commitment towards establishing business incubators (BIs), and thus shape the local technology policy. Cities and municipalities thus play an active role in improvement of location factors and the stimulation of endogenous growth processes. There is lack of clarity as to whether or not incubators serve as means to overcome resource deficiencies faced by young and small firms in their early years of entering the market. It is therefore important to track the performance of firms after their successful completion of the incubation period in order to understand the effectiveness of the Business Incubators. Schwartz (2011) argues that policy makers i.e. cities and municipalities do not conduct studies to track the performance and development of graduate ventures, yet continue to commit economic development budgets to these incubation programmes.

The failure to conduct such studies is due to insufficient data on graduate ventures and lack of systematically recorded data on formerly incubated firms. It is insufficient to restrict incubation evaluation studies to the initial incubation period as this does not provide an accurate assessment of the effectiveness of incubation initiatives. Academics and policy makers must extend their interest to post-graduation development of former BI tenants. Successful graduation from incubation is an important milestone for both the incubator and the tenant's development, yet it does not guarantee subsequent success. In addition to data constraints, most studies show survivor bias, i.e. performance data are collected for those firms that can be observed surviving at the point the study is conducted. This trend tends to overestimate the growth potential of graduate incubation firms as it systematically excludes less successful firms from the analysis. Business Incubators are part of a broad range of policy measures that focus on the promotion of innovative start-ups and the support of small and medium-sized enterprises (SMEs). Business Incubators provide incubator firms with favourable business locations via a spatial concentration of a variety of business support elements. These support elements increase the incubator firms' chances of success by reducing a new venture's deficiency of key resources that are crucial for long-term viability and its resource base (Schwartz, 2011).

Incubator support mechanisms concentrate on the provision, generation, enhancement and particularly the exploitation of the resource endowment of the new ventures. The first main support component of business incubator support is subsidised and flexible rental space, including offices, laboratories, and small production and manufacturing space. Any new venture considers these elements to be very important for its existence and survival. The second component of business incubator support consists of a broad range of collectively shared facilities and services such as secretarial support, laboratory equipment, and communication infrastructure. Small firms or one-man businesses such as engineering consultants are severely constrained in their development by lack of access to these essential and extremely expensive facilities and equipment (Schwartz, 2011)

Rental space and collectively shared services and facilities are referred to as the hardware components of business incubators and focus primarily on the early stage fixed-costs such as economies of scale and cost reduction through shared utilization. The third main component of business incubation is business assistance services such as marketing, accounting and human resources, which promote entrepreneurial thinking and the understanding of vital day-to-day business processes. According to the resource-based view key factors in identifying, combining and exploiting the economic potential of the resource endowment of a firm are managing resources and expertise and business experiences. Schwartz (2011) argues that if the incubator management is capable of providing profound expertise in specific business fields, this may add enormous value to an incubator location and lead to faster growth and development of a tenant firm. Furthermore, successful incubation requires efficient networking within the incubation that fosters co-operative, formal contract agreements, and informal interactions between tenants.

Schwartz (2011) alludes to the social capital theory (SCT) that states that economic activities are embedded in social networks, hence the view that social networks among entrepreneurs serve as a critical strategic resource for business growth and success (Schwartz, 2011; Andersson, Forsgren and Holm, 2002; Wood, 2004). It is much easier and efficient for business incubators situated in close proximity to one another to transfer valuable knowledge and information and to exchange

experiences. In addition, the incubator serves as an intermediary that assists tenants to establish links with external incubator actors and to gain access to their resources and knowledge. These external incubator actors include specialised service providers, financial institutions, political institutions, and both public and private research facilities. The image and reputation of a firm are highly valuable intangible resources.

The fact that start-ups and young firms do not possess any reputation or legitimacy in the market might have a negative effect on their business interactions such as in negotiations with suppliers, customers, and financing institutions. Therefore an incubate benefits from the image of being associated with the business location and credibility of an incubator. The business support rendered to the tenant serves as a symbol of a firm's quality in its external business interactions. Therefore, business incubator initiatives serve as a compensation for early stage resource deficits for newly formed and young innovative firms to ensure their entrepreneurial stability, long-term business survival, and sustainable growth (Schwartz, 2011).

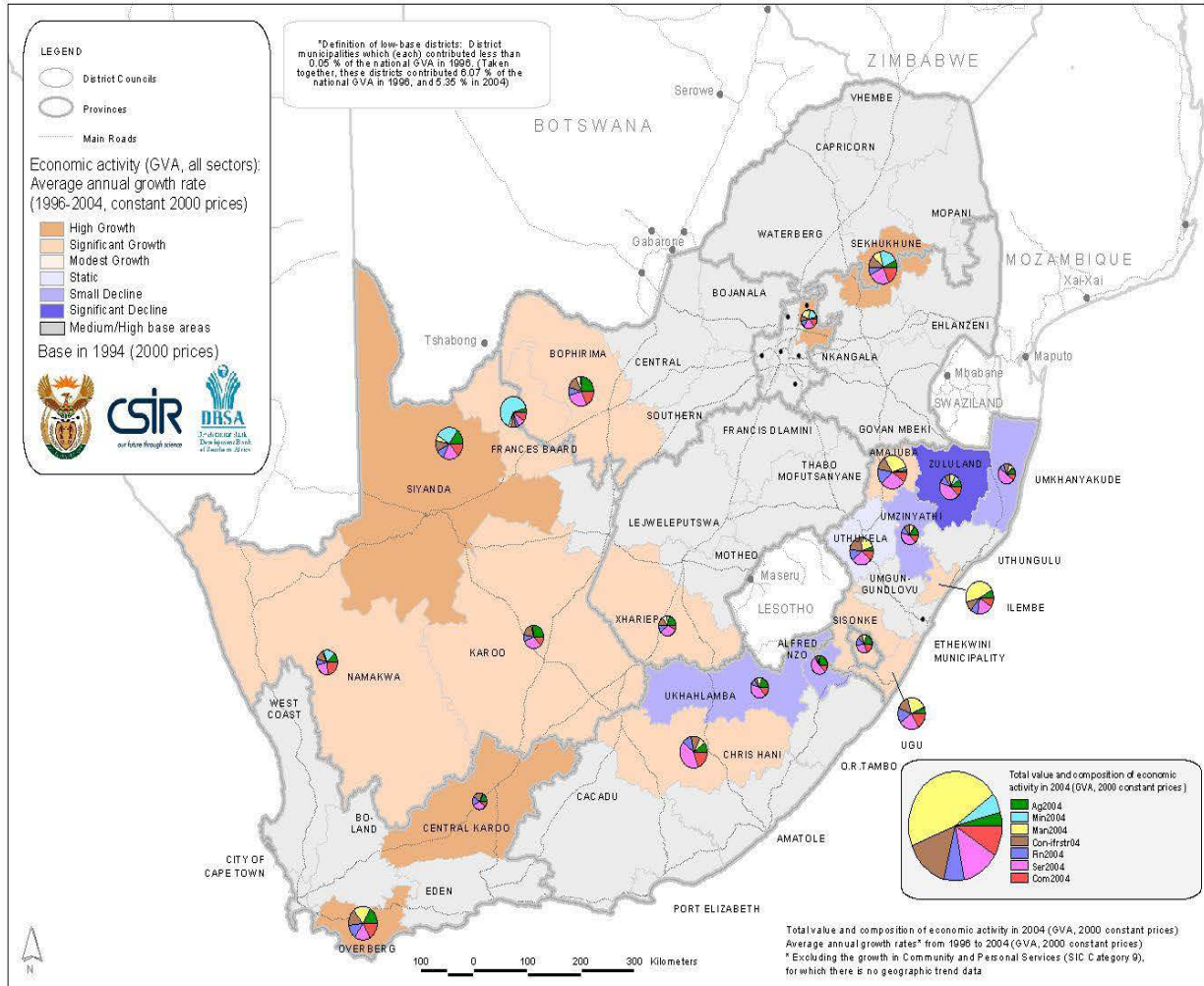
The importance of BIs in stimulating local economic growth and small business growth has received increased emphases and priority from government and the private sector alike in South Africa. The Department of Trade and Industry (DTI) has introduced a special incentive scheme to promote the establishment of business incubators with the aim of increasing the rate of small business development and success (DTI, 2014). The Innovation Hub (TIH) is another example of government efforts to promote small business development, particularly in innovative and manufacturing industries (TIH, 2014). The Shanduka Black Umbrellas (SBUs) is an example of the private sector initiative to contribute to small business development and growth as part of LED in South Africa (Shanduka, 2014). The BI model in South Africa has great potential and is currently gaining momentum with the increased establishment of BIs in various economic sectors including manufacturing, agriculture and agro-processing.

2.6 INTER-ORGANIZATIONAL COLLABORATIVE NETWORKS

The centralised organisation of the South African government i.e. unitary state which requires all spheres of government to align, integrate and coordinate their activities and policies, serves to promote and facilitate collaboration among local governments in LED initiatives (Agranoff, 2005, Queen, 2011). The South African Local Government Association and the Department of Cooperative Governance are key government structures in promoting and fostering such collaboration. Such configuration is crucial for building synergies and inter-jurisdictional symbiotic benefits for local government, particularly in relation to LED. Such collaboration is particularly important in the South African context given the disparity in resource and infrastructure profiles of the different municipalities (see figure 2.1 below and 5.1 in chapter five for differences in Gross Value Added (GVA) profiles of the different districts.

Figure 2.1: Low-high base areas: Composition and growth of economic activity (1996-2004)

Low-base areas*: Composition and growth of economic activity (1996-2004)



Source: CSIR, 2006

Lee et al. (2012) discourage regional economic development competition for its inefficiency and destructive nature which are a result of externalities created by decisions of neighbouring sub-national government entities on each other. Rather, they argue that collaborative networks of multiple stakeholders within and across jurisdictions are increasingly becoming common in economic development initiatives. A growing trend in economic development is that of voluntary and self-organising relationships among local governments. Regional economic collaboration is largely

shaped by the decisions and motivations of local actors in engaging in such relationships.

A key feature of Multinational Corporations (MNCs) is that their subsidiaries are embedded in different local networks with each subsidiary maintaining a unique and idiosyncratic linkage to the network. These differential networks expose subsidiaries to different new knowledge, ideas and opportunities which in turn contribute to the competitive advantage of the entire MNC. A subsidiary's access to network resources impacts positively on its competitive capability in its own market. Access to network resources enables transfer of capabilities from one subsidiary to another, thereby improving the competence of the MNC as a whole (Andersson et al., 2002). Lee et al. (2012) identify three factors which shape choices of local actors to engage in collaborative networks at the micro-level. These factors are (1) transaction costs of collaboration which depend on the configuration of the collaborative arrangement, (2) organisational similarities (homophily), and (3) the resource dependencies which shape the local actors' preference for forming collaborative relationships with other specific actors.

The common patterns found in collaborative networks are preference of sub-national government and non-governmental organisations for reciprocity and social clustering structures. Local network actors prefer densely clustered networks for their ability to maintain credible commitments to collective solutions, rather than simple exchange relationships. In the US sub-national units act independently and as a result the responsibility for economic development is highly fragmented. The primary interest of cities is to attract businesses and investments to support the economy and tax base. Local governments use various measures to attract new and to retain existing businesses which include subsidies, tax breaks, land use incentives, tax-exempt bonds, training funds, infrastructure investments and customized incentives packages. Both costs and benefits of successful economic development in one jurisdiction affect other jurisdictions in other regions (Andersson et al., 2002).

Furthermore, economic development generates benefits throughout the metropolitan region in the form of positive economic spill-overs such as employment gains, spin-off investments, and agglomeration economies. Businesses wishing to set up a

business in a location base their decisions more on a regional rather than on a specific jurisdiction, thus emphasizing the importance of regional inter-governmental and multi-stakeholder collaborative networks in driving economic development. Important considerations for businesses wishing to invest in a jurisdiction include regional transportation infrastructure, availability of skilled workers, research and technology, education systems, and social and cultural amenities. Information-sharing between cities is crucial for them to coordinate efforts and to collaborate in making the region more attractive for development (Andersson et al., 2002)

This is particularly important given economic spill-overs across regions and their inter-dependence for success in attracting new development. Lee et al. (2012) argue that cities instead compete against each other for economic development rather than complementing each other and collaborating with each other. This competition for economic development among cities generates a zero-sum outcome for the region. Ha, Lee and Feiock (2010) argue that local governments implement competitive development policies and sometimes seek to build collaborative relationships with businesses and non-governmental organisations on development as a means to increase their competitive edge. Thus, these government entities engage in strategic alliances to maximise their own interests and benefits.

However, such collaborative relationships might pose collective action problems such as free riding and an unbalanced cost/ benefit structure due to unclear property rights and information asymmetries. Policy networks can serve as networks to reduce transaction costs and to build trust in economic development. Network structures reduce transaction costs based on concrete contractual and governance provisions. Participation in network structures improves economic performance of actors. Economic performance of network actors depends on the type of network structures that local governments create and maintain. Organisational networks constitute functional relationships that facilitate and coordinate interactions of organisations in pursuit of economic development. Ha et al. (2010) identify three forms of economic development network structures which local governments could form as public-oriented networks, mixed organisational networks, and private-oriented organisational networks (Ha et al., 2010).

2.7 INFORMATION-ECONOMY GROWTH AND LED IN LOS ANGELES

The growing importance and role of information and communication technology (ICT) in the economy and in many other socio-economic facets of life make investment in ICT crucial for any economy. This is particularly important for South Africa as a developing or emerging economy. ICT has tremendous potential to fast-track and boost economic growth in a developing economy like South Africa. It is therefore important for South Africa to adopt and integrate the information-economy model as part of its LED to harness the benefits of ICT and information-economies. This is particularly important for growth in all other sectors of the economy such as manufacturing and telecommunications. The section that follows discusses in detail the importance of information-economies in LED and how such economies could be linked to other LED initiatives to achieve economic growth and job creation in South African localities.

It is important to understand the relationship between the growing rates of information technology investments and the governments that craft policies so as to harness the economic growth from this investment. Hackler's (2007) study on this relationship is based on a ten-year period (1987-1997) for the municipalities of the greater Los Angeles metropolitan area. During this time period information-technology investment was a significant contributor to the U.S. economy. Hackler (2007) argues that it is also important to understand the preferences of information and digital economy industries at the local level. Local economic development policy data provides a robust picture of local growth in the information and digital economy.

Localities are increasingly active in the information and digital economy (Tan, 1999) arena and therefore it is important to know if economic development policies are effective and successful in promoting growth of this sector. Traditional location factors and local policies are used to promote the growth of information-technology investments in localities. Most types of economic development policies do not accelerate growth in a predictable manner, thus specific policies may be suited to a particular sector i.e. no single economic development policy is effective and suitable for the growth of all sectors of the economy.

A range of important local attributes which serve as determining location factors (Rogerson, 2010) for firms wishing to invest in a locality include agglomeration economies (localization and urbanization), wages, labour skills, transportation access, local tax and expenditure policy, and property crime. All these factors are part of the economic development policy and affect economic growth. Information-technology firms evaluate the level of existing economic activity when deciding on the selection of a location. The condition of concentration of existing economic activity is referred to as agglomeration economies. It occurs because spatial concentration of economic activity creates a favourable economic environment that supports further concentration. A firm gains benefits of agglomeration economies from external linkages in a spatially concentrated location.

Agglomeration economies serve as intuitive foundation for technology firms to build industry clusters (Hackler, 2007; Dicken and Malmberg, 2001). Clusters are sets of strongly interrelated business activities or firms (Dicken and Malmberg, 2001). Localization and urbanization economies are two types of agglomeration economies that are vital for an area's spatial concentration. A firm gains from benefits of localization economies by locating in the same area as similar firms producing the same product or service. Such concentrations make it easier for firms to access specialized suppliers for the special needs of technology firms. Thus, localization economies are important location factors for a firm when selecting a location (Hackler, 2007). Urbanization economies, a second type, obtain benefits from a firm being located in an urban area because there is larger market demand for its product or service and greater access to an appropriately trained labour force.

Further, urbanization economies have a positive effect on the growth of the information-economy sector. Information-technology industries, like high-tech industries should be sensitive to the workforce of a locality because they require a greater number of employees with specific skill sets. A population with a greater number of college graduates is more likely to have a suitable labour pool for information-economy industries. The cost of doing business in a jurisdiction is a reflection of its level of attractiveness to business. In the same vein, the attractiveness of a city to the information-economy industries depends on the cost of doing business in that jurisdiction. A city requires an adequate source of revenue

from property, income, and sales taxes which then enables it to provide the services required by businesses and citizens. Thus, local taxes are important location decision factors for businesses wishing to invest in a locality (Hackler, 2007).

Hackler (2007) argues that a high effective property tax rate i.e. the ratio of each locality's property tax collections to assessed value of all property, has a negative effect on local economic growth. Greater access to transportation is the biggest positive location decision factor. Information-economy sectors dependent on distribution find greater access to transportation very attractive. Property crime is an indicator that relates to business costs because it is a detractor to further business growth and investment. Further, property crime negatively affects future business activity (Hackler, 2007). Financial development i.e. access to business finance is another major determinant of business growth and thus a crucial location factor (Gagliardi, 2009).

Relationships among economic policies and information economy growth vary from sector to sector and by the types of economic development policies. Some economic development policies generate similar outcomes for different sectors. Other indicators or factors which have a positive effect on the growth of information-economy industries include land use and zoning management, public improvement and infrastructure development policies. On the other hand, land use policy has a significantly positive relationship with growth in some sectors e.g. communications equipment and publishing sectors, and a significantly negative relationship with growth in other sectors such as hardware. This finding implies that land use and zoning policies have a differential role in the economy. Ironically, public investment and infrastructure policies have a negative relationship with growth in the information economy industries (Gagliardi, 2009).

However, Hackler (2007) suggests that over a long-term period, a positive relationship between public investment and infrastructure policies might emerge. Assistance policies and city promotion policies also have a positive relationship with growth of industries in general. The varied results indicate the importance of understanding how certain policies can affect the attraction of certain information-economy sectors to a jurisdiction. Therefore, cities must tailor their policies

effectively i.e. develop a correct combination of economic development policies so as to attract the desired sectors successfully (Hackler, 2007).

2.8 LOCAL ECONOMIC DEVELOPMENT (LED) INITIATIVES IN BRITAIN

The South Africa government has invested a great deal of resources in the local economy through various agencies and initiatives. In addition, there is a plethora and network of state service providers in the training and skills development as well as in business development sectors (Seda, 2014; NEF, 2014; IDC, 2014; *Mail & Guardian*, 2014). The latest introduction of new Ministry of Small Businesses by the country's president demonstrates the seriousness which government accords to small businesses and local economic development (DTI, 2014). This action and other economic development initiatives at local government level should be encouraged and strengthened through a national framework to ensure economic growth and increased productivity at this level (Young and Kaczmarek, 2000; Cutler, 2002; McKethan and Maynard, 2006). This section discusses LED initiatives in Britain which focus specifically on bottom-up local activities and the role of development corporations and agencies.

In Britain national frameworks encourage 'bottom up' approaches to economic development. These national frameworks are further supported by the current British government's economic development policy which emphasises regional and sub-regional scale and multi-agent initiatives (Ramsden, Bennett and Fuller, 2007). Training and Enterprise Councils (TECs) also emphasized local multi-agent initiatives in economic development. Ramsden et al. (2007) in their article track the progress of a number of initiatives established under the TECs by using the TEC Discretionary Fund as an example. They assess the ability of successor bodies to be more effective in promoting local economic development. Their findings confirm that many projects previously set up under TECs continue to operate successfully under new partnership arrangements.

However, they argue that it is unlikely that similar local initiatives will be developed as a result of newly developed structures and centralized policy. Ramsden et al.

(2007) argue that the end of TECs will create a gap in the institutional infrastructure for local economic development, particularly with regard to workforce development. The future of LED in Britain will depend on how the Regional Development Agencies deploy their growing power and resources. The initiatives mentioned above that are aimed at local economic development are designed to include private sector businesses, local and central government organisations, education and training providers, the voluntary and community sector, and public sector agencies. The role of public sector agencies is to form institutional structures and to act as catalysts or facilitators for action.

The notion of public sector agencies and government involvement in local economic development is in agreement with the views advanced by Bockstette, Chanda and Putterman (2002) that capable states can play an important facilitating role in the process of economic development. Three new institutions responsible for economic development in England were established in 2001 and these are the Regional Development Agencies (RDAs), Learning and Skills Council (LSC), and the Small Business Service (SBS). These institutions were introduced to represent the public sector position at national government level and were coordinated through local or regional arms. Further, the local government is empowered to support national frameworks which seek to improve the productivity and competitiveness of the economy. The TEC was further tasked with the role of acting as leader and a catalyst for local, multi-agent initiatives.

Ramsden et al. (2007) argue that this role was performed exceptionally well under initiatives supported by the TEC Discretionary Fund (TDF). Although the British government economic development policy emphasises the 'bottom up' multi-agent network (at sub-national, regional and local levels) approach, this approach has been limited in practice. The end of the TECs created a gap in local economic development institutional infrastructure (Ramsden et al., 2007). Another form of initiative is the Local Exchange Trading Schemes (LETS) which was introduced by the British local authorities as a local economic development and anti-poverty strategy (Aldridge and Patterson, 2002).

National macro-economic Keynesian welfare policy declined in popularity in the immediate post-War era in favour of local and regional scale economic development policies. The shift in emphasis from macro-economic policy to a multi-agent local and regional economic development approach developed in response to the recognition that key economic decisions do not take place exclusively at the state level but within an increasingly multi-agent structure at different spatial levels. The regional and local levels have become important arenas for governance while the national level has become less significant in decision-making processes pertaining to economic development. Sub-national governance emerged as a local response to a highly centralizing political system. Thus local institutional structures developed within different local contexts resulting in the formation of 'institutional layering' (Ramsden et al., 2007).

Firms are influenced by the local institutional context in which they are located. When the local institutional context is strong, firms have a greater potential to benefit from local economies of scale and scope, and to enjoy other local socio-economic factors that can influence development. In support of this view, when business clusters and factors that underpin them are localised, local firms derive economic development benefits mentioned above. Successful clustering is underpinned by mutually reinforcing components that form an interactive network. Most of these mutually reinforcing components are influenced by government policy and are focussed at local level where there is an advantage to combine local knowledge and resources in a more holistic and integrated way. Local networks and contexts of proximity enable agents to benefit from exchange, cooperation and commitment (Ramsden et al., 2007).

Furthermore such networks and contexts allow agents to draw on economic rationales and softer ones such as social and personal relationships. Trust is an essential link between agents in the development of successful inter-firm networks. Network brokers or catalysts play a key role in developing effective initiations. When network members in the same geographical area are faced with common problems and difficulties, they form successful relationship in response to the challenges. On the other hand, development agencies or other brokers or catalysts are required to facilitate development of a wider network of relationships between local agents, and

with government bodies at local, national and continental level (Ramsden et al., 2007). Key for local economies is the coupling of localisation and urbanisation economies to form agglomeration economies thereby integrating and clustering businesses and local economic development initiatives in a manner that enhances collaboration, builds synergies and harnesses the potential that emanates from exchange, cooperation and network opportunities.

The Labour government in Britain since 1997 sought a new agenda which emphasized reinvigoration of regional level government and a stronger role for local government in matters of local economic development. Labour emphasized the role of local and regional agents in order to complement more flexible and responsive forms of governance found in new economic relationships. Global agents and economic trends directly access local and regional economies. Hence, local agents must take responsibility themselves for gathering important economic information and signals, organizing responses, and developing new delivery networks. Keynesian policy was characterized by top-down structures which lacked local input or tailoring to local needs, priorities and opportunities and thus would not fit this role which requires highly responsive and flexible forms of government. Locally designed solutions have the advantage of being closer to the problems on the ground and hence will be more sensitive to local needs (Ramsden et al., 2007).

RDAs, Sub-Regional Partnerships (SRPs), Local Strategic Partnerships (LSPs), and a reinvigorated set of economic development powers for local government has provided the Labour government's agenda with institutional support. Such arrangement resulted in the formation of the English structure of nine regional bodies, 45 – 47 sub-regional bodies mainly at the county and metropolitan levels, and an increased level for the local government. RDAs are important role players at the regional level and produce overall economic strategies. They are supported by LSC and Business Link (BL) programmes, and use networking structures such as SRPs and LSPs to draw other partners together at different levels. In addition, RDAs have become major funding bodies, with LSC and BL, for initiatives. Other reforms include restructuring institutions concerned with skills training by merging former TEC programmes with Further Education (FE) funding, and refranchising of the local

business support system (Business Link) into a sub-regional structure. The Labour government recognizes local government as the cornerstone of local initiatives (Ramsden et al., 2007).

The Local Government Act (2000) introduced a new approach to empower local governments to lead communities, to promote and improve the wellbeing of their communities, and to contribute to sustainable development. Local Community Strategies is the key component of this new approach as contained in the Local Government Act (2000) which requires local government to lead and facilitate initiatives, including LED initiatives. However, Ramsden et al. (2007) argue that this new approach which empowers local government has not been accompanied by a commensurate increase in resources. Thus, local government is required to seek funding resources through networking, partnering and bidding for funding resources from the central government and RDAs. In the 1980s and 1990s local government development structures were criticised for being uneven and fragmented, hence the introduction of reforms to respond to these criticisms (Ramsden et al., 2007).

2.9 SUMMARY OF CHAPTER TWO

The need for coordination, integration, and alignment of all efforts by different stakeholders, particularly local, regional, and national governments stands out in all local economic development policies of other countries as discussed in the preceding paragraphs. Such an organised approach will engender confidence and project an image of business policy stability and consistency in LED strategies and initiatives among local actors and potential investors. Thus, the need for collaboration, cooperation and consultation among all key policy decision-makers is vital to ensure effective and successful LED initiatives. New LED policies place greater responsibility on local government and local business stakeholders to develop responsive and flexible solutions to economic relations in localities, thus facilitating formulation of bottom-up solutions that are responsive and sensitive to the needs of local economic actors. Government has a central role to play in empowering poorer, rural and less developed areas as seen with the intervention by the Canadian government which developed a progressive and effective economic

development model for the two regions in the north, namely; Northern Quebec and Northern Labrador.

This model was linked to the land claim agreements which sought to empower the Inuit people in these regions with land ownership rights. Coupled to that were initiatives to create an economic base and to promote economic self-reliance for the locals. The model achieved these ideals through local grassroots economic development and creation of development corporations. This is an excellent model which could be effective in the South African land redistribution and restitution programme, particularly because this programme has failed to reach its targets and objectives of black land ownership and economic empowerment respectively. Key provisions and tangible outputs of the land claim agreements included benefits of cash compensation, ownership of land, surface and sub-surface resources, co-management rights, resource royalty shares, traditional hunting and fishing rights, provisions for land use planning, programmes for economic development, training and job creation as well as policies for Impact and Benefit Agreements.

The tourism industry presents developing countries with enormous opportunities to create low-skilled jobs and to generate income for the locals through economic development initiatives. The backpacker tourism sector, also known as budget tourism is particularly relevant for economic development and empowerment of locals in developing countries due to relatively low financial barriers (capital requirements) to entry. Backpacker tourism is a pro-poor, bottom-up, small scale, locally-owned form of tourism with the potential to transform the lives of the local poor in urban areas. Global Production Networks (GPNs) are frameworks designed to simplify the complexities and processes of economic globalization and development. They provide a better analysis and understanding of the changing international distribution of production and consumption and the viability of different development strategies to which they relate. GPN is an innovative industrial organisation that enables firms to access flexible, specialised suppliers in lower-cost locations i.e. a network concentration of value-chains dispersed in a locality and across regional borders, thus contributing to local and regional economic development.

Business incubators provide young and innovative entrepreneurs with a range of business and development support initiatives which are intended to reduce the challenge of start-up capital requirements that are required to run a successful business. Business incubation is an effective means to strengthen small businesses and to ensure their survival in the early years of operation, hence it forms part of most local economic development policies. They are usually established by cities and municipalities with the aim of supporting small and medium businesses in their jurisdictions. These local authorities thus play an active role in the improvement of location factors and in the stimulation of endogenous growth processes and local economic development. Regional and local economic development initiatives undertaken by sub-national government structures create negative externalities such as regional competition which are ineffective and destructive for business growth in each jurisdiction.

Instead of competing against one another, sub-national government structures should rather form collaborative networks comprising multiple stakeholders within and across jurisdictions to create synergies and to harness their combined potential for economic growth in each jurisdiction. Sub-national government structures tend voluntarily to form self-organising relationships with each other so as to derive certain benefits from collaboration. These benefits include reciprocity and the formation of social clustering structures. However, certain factors shape the choices of local actors in engaging in collaborative networks. In Britain TECs were responsible for local economic development and particularly workforce development. They have been replaced by Regional Development Agencies which possess enormous power and resources for local economic development. These reforms and initiatives are part of the British government's local economic development policy and national frameworks which encourage 'bottom up' approaches and regional and sub-regional scale and multi-agent initiatives. Stakeholders of these multi-agent initiatives include private sector businesses, local and central government organisations, education and training providers, the voluntary and community sector, and public sector agencies.

Chapter 3: South African context of LED

3.1 INTRODUCTION

Chapter three provides a detailed policy discussion and analysis of LED in South Africa, including its formulation, planning, stakeholders, constraints, and opportunities, and supporting or enabling legislative framework. Further, discussion of LED in the South African context seeks to identify and recommend potential policy solutions, strengths and opportunities for LED in South Africa by taking into consideration the unique and diverse nature of challenges faced by government and its stakeholders in successfully implementing LED policy. The chapter begins with an overview of LED policy in the international context and a discussion of a variety of strategies used in other countries such as the United States, China and Anglophone Caribbean (Trinidad and Tobago and Jamaica) to stimulate economic growth.

The focus then shifts to LED policy in South Africa in terms of opportunities for economic growth and challenges in realizing the goal of economic growth and job creation. Some of the challenges faced by LED stakeholders, especially the local government and the private sector in effectively implementing LED include lack of resources and skilled labour which are critical in driving local economic growth. Lastly, the chapter analyses and discusses key focus areas of LED policy regarding economic development indicators, economic sectors and initiatives used as key drivers of economic growth and job creation. These indicators include infrastructure development, business incentives, tax rebates or exemption, subsidies, research and technology, enterprise development, public-private partnerships, empowerment, education and skills development, business incubation, preferential procurement processes, strategic partnerships and business development initiatives.

The role of local government as an agent responsible for creating an attractive business environment is discussed. The main focus on local government is on its ability and responsibility to address the constraints to increased investment (O'Toole

and Tarp, 2012, Heese, 2005) in localities and business activity and expansion to drive local economic growth. Some of the key constraints of increased business activity especially in major cities include crime, lack of skilled labour, poor infrastructure and unfavourable business legislation. The chapter concludes by briefly discussing the legislation put in place to support effective implementation of LED such as the Constitution, the Municipal Systems Act, the White Paper on Local Government (Act 108 of 1996), and the 2002 LED Policy.

3.2 GLOBAL OVERVIEW OF LED

In the U.S. city-county consolidation has been used by local government entities as one of the strategies to increase efficiency, decrease costs, address regional issues, and to promote local economic development (Faulk and Schansberg, 2009). The U.S. has consolidated nine city-county government entities since 1990 and currently has a total of 38 such consolidated city-county entities. This highlights the importance of and increased trends towards city-county consolidation in the U.S. Outcomes of city-county consolidation include political, economic and fiscal effects on a new combined system of government. Economic effects of city-county consolidation include a change in employment figures i.e. the number of jobs and the number of business establishments in a new system of government. A common measure of economic development is the change in the level of employment or the number of business establishments.

When a referendum on city-county consolidation is held, the most central issue is the prospects of economic development, thus suggesting that this local government consolidation holds the potential for positive impact on local economic development. Effective and operational government consolidation reduces bureaucracy and increases government efficiency, thus positively impacting on economic development. A less bureaucratic and more efficient government attracts new businesses and promotes expansion and growth of existing ones, thereby having a positive impact on the creation of new jobs. Some studies show a weak relationship between consolidation and growth or establishment of new businesses. Consolidation does not have a positive impact on the overall growth of the locality

but rather has positive distributional effects in allowing certain groups to advance their agendas.

Another indicator commonly used as a measure of the impact of consolidation on economic development is the change in per capita income, where an increase in per capita income after consolidation would indicate a positive correlation between consolidation and economic development. While some studies show that consolidation has no effect on economic development, Reese and Rosenfeld (2001) in Faulk and Schansberg (2009) argue that economic development policies are shaped to some extent by historical and cultural factors. Other factors which may have an effect on economic development outcomes following consolidation include management styles and personalities of local government officials, the ease and degree of consolidation, and institutional factors (Faulk and Schansberg, 2009; Sihlongonyane, 2003).

The Chinese economy reached phenomenal growth as a result of the transformation and liberalisation of its economic system. However Ganne and Lu (2011) argue that despite such economic growth and transformation Western investors remain deterred from entering the market due to lack of democracy and absolute domination by the Communist party which applies an extremely centralised and organised system of government. This top-down approach of politics does not promote grassroots political participation and freedom.

Despite this historical top-down character of the Chinese government, recent economic growth and transformation has been accompanied by widespread grassroots 'bottom-up' political transformation and participation i.e. political participation and decision-making by local and provincial government structures rather than pure domination by the central government. Economic and industrial development of the nature seen in China in recent years requires some degree of decentralization of powers and institutions, thus suggesting that China has moved from a practice of absolute political centralization to a more decentralised form of governance. China has moved from traditional socialism characterized by public ownership, a planned economy and class struggle to a form of socialism that emphasizes reform and development of a market economy (Ganne and Lu, 2011).

Local economic development is a sector within the broader scope of community or local development. Schoburgh (2012) argues that in the Anglophone Caribbean policy systems the central government plays a more significant and dominant role in local development despite it focusing on local issues. However, she argues that with the emergence of people-centred approaches to local development, the role of local government has become even more important, particularly in approaches aimed at responding to opportunities and risks brought by globalisation.

The importance attached to local government in local development is in relation to its institutional arrangement which is seen as most appropriate for pursuing short-term objectives such as creation of market opportunities and redressing national economic disparities. In addition, local government is seen as an appropriate institutional context for pursuing long-term objectives of social transformation. Schoburgh (2012) advocates a local government reform strategy that links local government more consistently with a local development strategy in the Anglophone Caribbean (Trinidad and Tobago and Jamaica). This strategy should incorporate gender equality, the informal economy and institutional organisational capacity in the process of transformation. Further, the strategy would serve as a basis for creating a local context that maximises all types of resources for local wealth creation.

Morgan's (2010) study seeks to establish a nexus between governance and local economic development policy innovation in order to facilitate more effective policy implementation. The key role of governance is to manage the interaction between the private and public sectors and the increase of multi-sector networks and partnerships in the process of implementing public sector policies and programmes. The role of governance in local government has become increasingly important, especially in local government efforts to drive key objectives of local economic development namely; job creation and attraction of private investment (Morgan, 2010; Nel and Rogerson, 2007). Governance requires that local economic development policies are designed and implemented within multiple inter-organisational networks that include various public and private sector partners.

Further, governance promotes collaboration and engagement in inter-local agreements on specific projects within the framework of local economic development policies. Governance seeks to address the market-oriented challenges facing the traditional bureaucratic model of public administration as embodied in the New Public Management (NPM) (Massey, 2010; Pillay, 2008; Emery and Giaouque, 2001). NPM promotes business values of flexibility, competition, responsiveness, and accountability in public administration (O'Flynn, 2007). States and local government entities in the United States have developed creative and innovative strategies in the design, organising, financing and implementation of local economic development activities. This innovativeness by the sub-national units was in response to reduced federal government involvement and support in LED.

A number of local economic development policy tools and service delivery structures were developed as a result of this innovation and creativity in the local economic development arena, leading to the formation of NPM. The NPM has tremendous influence on the administration of economic development incentive programmes, which promote the increase in the use of various accountability mechanisms such as cost-benefit analysis, incentive eligibility policies, performance-based incentive agreements, local hiring mandates, and punitive provisions for reclaiming incentive grants from underperforming companies. These accountability measures are safeguards used by local government entities to protect public interest and to reduce the risk and uncertainty associated with awarding business incentives.

The number of subsidy controls (accountability measures) used by the local government increases as the amount of incentives they offer increases (Morgan, 2010). Strategic management is one of the new management tools which local governments could use to navigate uncertain and dynamic global economic trends and to identify alternative job creation strategies. Further, a strategic plan helps local governments to develop strategies and policy tools that are consistent with their own jurisdictions' economic development goals and local assets. Furthermore, a strategic planning process promotes and facilitates public or community participation in LED, and a common consensus, thus rendering these policies more responsive and accountable to the public who are its key stakeholders.

3.3 SOUTH AFRICAN OVERVIEW OF LED

LED is a function and process that seeks to improve local economic governance as an integral part of the community development strategy. However, most municipalities face enormous challenges in relation to implementation of LED policy such as resource and skills constraints, poor communication and guidance and support from other spheres of government i.e. provincial and national government. In some municipalities such as the Frances Baard District Municipality in the Northern Cape Province, institutional architecture of the municipality locates LED in a line function environment that does not support or facilitate its effective implementation. Rossow-Brink (2007) argues that institutional reform is necessary to bring LED into the mainstream of municipal decision-making by relocating it to a higher level within the municipal hierarchy. Another challenge to effective implementation of LED policy is the lack of clarity regarding which level of municipality i.e. either district or local should bear the responsibility for guiding and facilitating LED at the local government level.

LED is essentially a local initiative driven by local government in collaboration with the private sector to manage resources of the locality in the manner that stimulates economic growth (Rossow-Brink, 2007; Gaule, 2011). The main objectives of LED are the creation of jobs and alleviation of poverty through redistribution of resources for the benefit of local communities. These two objectives are intertwined in that jobs empower individuals and communities to generate income that will pull them out of the poverty trap. Further, increased economic activity in the form of private sector investment i.e. newly established businesses or expansion of existing businesses is the main source of job creation and revenue for local governments.

South Africa has one of the highest unemployment rates (25.6%) in the world and the distribution of its economic activities is highly uneven, with more productive economic activities concentrated in developed urban areas (Statssa, 2013). It is important to discuss the level of unemployment and economic activity in South Africa since these factors are the two main objectives of local economic development which seek to significantly reduce poverty in the country. A strong geographical or spatial coincidence exists between unemployment levels and levels of gross domestic

product per capita. The most striking manifestation of high levels of unemployment in South Africa is the high number of young, mostly black males (referred to as day labourers) who wait on the side or corner of the road on a daily basis hoping to be picked up for a day's job as a labourer. Day labourers mainly have a low level of skills, a factor which LED policy seeks to address as one of its performance indicators (Harmse, Blaauw and Schenck, 2009).

Skills and knowledge development for high levels of skilled labour is one of the key location factors for businesses wanting to invest in a locality. It is also important for business wishing to expand their existing operations and in the formation of local clusters which ultimately contribute to growth and development of other businesses in the local cluster. Provinces and cities with high levels of development and GDP such as Pretoria, Johannesburg, Cape Town and Durban tend to have relatively low levels of unemployment and high levels of day labourers. This suggests that regional or local economic development translates into increased business or economic activity and subsequently increased job creation levels (Garibaldi, 2007; Altman and Mayer, 2003, Fuchs, 2012; Akram, 2012). A high level of day labourers is an indication of the presence of employment opportunities and high levels of development in a locality. More people stream into bigger cities and urban areas in search of jobs, thus the high number of job seekers in these areas.

The 2006 National LED Framework (DPLG, 2006) is the first South African national guideline on LED (Nel and Rogerson, 2007). In South Africa LED is used as an applied intervention to respond to the country's development needs. The country's Constitution (RSA, 1996) and various sections of government legislation and policies mandate local governments to implement LED initiatives. The development gap in South Africa continues to grow in favour of more developed urban areas as compared to less developed rural areas. This is largely due to the former having far greater potential and capacity (staff and resources) to implement LED initiatives than their rural counterparts.

3.4 IMPROVING THE LOCAL BUSINESS ENVIRONMENT IN SA

The national LED framework mandates local government to foster conditions that stimulate and enable an environment favourable for the establishment and expansion of business. Constraints for potential private business investments in South African localities include crime, safety and security, infrastructure, the rising cost of doing business, skills shortages, and limited working relationships between local authorities and local investors. It is the responsibility of local authorities to address these challenges in order to enhance the business environment in their localities. Improving the local business environment is necessary for promotion of enterprise development which then leads to economic growth, increased job creation, improved welfare and reduction of poverty in a locality.

Enhancement of the business and investment climate is a common strategy for local economic development throughout the world. Challenges facing developing countries with regard to creating a favourable business and investment environment include poor public governance, weak infrastructure, and inconsistent, unstable and unpredictable policy and legal frameworks. Rogerson and Rogerson (2010) argue that in sub-Saharan Africa key requirements for creating an attractive business environment on a national scale include improved state-business relations, simplification of business registration process, and reform of labour relations and property titling. However, changing of business legislation at the national level to enhance the business climate should also cascade to the local government level. Globalization forces localities to compete against one another for business investment, thus necessitating the improvement of the business environment in localities to attract these investments (Rogerson and Rogerson, 2010; Meyer-Stamer, 2004).

The process of creating favourable conditions for doing business entails upgrading a locality and strengthening its competitiveness. The benefits of a local environment conducive for doing business include reduction of costs of doing business, unleashing the economic potential of a locality, and attracting investment (Rogerson and Rogerson, 2010; Ruecker & Trah, 2007). Problematic governance patterns, cumbersome political guidelines, laws and regulations, bureaucracy and ineffective

administration within the local government represent major costs for businesses wanting to invest in a locality and are thus some of the major constraints for potential business investment and economic growth.

Local business environmental factors such as agglomeration advantages and productivity premiums deriving from conducive local business environment significantly influence business location decisions. Local authorities should encourage increased business activity and investment to improve economic growth potential of their localities. In South Africa four major factors which discourage private business investment are an unstable exchange rate, which negatively affects exporters; high labour costs, especially for skilled workers; burdensome labour regulation, and high costs of crime. A major challenge facing local micro-enterprises is access to and the cost of business finance. Reform of the local business environment as part of LED planning is necessary to improve the attractiveness of the local business environment for private business investment (Rogerson and Rogerson, 2010; DPLG, 2008).

A study conducted in Johannesburg to determine the constraints to private business investment, growth and employment that impact negatively on the local business environment (Rogerson, 2010) of the city found these constraints to include (from high to low impact) crime and theft, cost of capital, unstable/ depreciating currency, labour regulations, corruption in government, shortage of skilled labour, tax rates, unfavourable government policies, tax, trade, and business regulations, infrastructure and environmental regulation. Crime posed a major constraint on business growth and employment potential in the City of Johannesburg in relation to the costs incurred to increase security and safety of the business and its employees. Businesses in Johannesburg are less affected by environmental regulations.

In addition to the aforementioned constraints, pollution and long distances to seaports were other major constraints for business growth. On the other hand, Johannesburg is a preferred investment location due to various factors which include high quality of infrastructure such as roads, efficient provision of services, access to product inputs and final markets. It should however be noted that some of these constraints continue to change as the government and other sectors of the local

business community are taking measures to improve the business climate by addressing many of the identified challenges such as crime, corruption, business regulation and shortage of skills (Rogerson and Rogerson, 2010).

Business clustering and agglomeration in Johannesburg create productivity enhancing capacities which make the city a preferred business location (Rogerson and Rogerson, 2010; Scott, 2003). Johannesburg's strength as a preferred business location derives further from being a decision-making or command centre of the economy of the region and the entire African continent. Further, as a world-class city it has the largest cluster of business headquarters in the region, the richest and largest commercial, and industrial market, the largest cluster of financial services and information technology enterprises on the continent, a thriving knowledge-based sector and tourism economy. Clustering enables firms to respond to uncertainty and challenges of a complex business climate and affords them greater operational flexibility. Furthermore, clustering has advantages of greater access to markets and suppliers. Businesses choose Johannesburg as an investment destination (Salami, 2011) because it is an economic hub, financial and decision-making centre and core market of the continent (Desta, 2009).

3.5 LOCAL INVESTMENT INCENTIVES IN LED

Policy experiences of two of South Africa's main cities Durban and Cape Town in using territorial competition as part of their LED strategies have led to the debate in South Africa about the potential introduction of local investment incentives (Rogerson, 2009). Arguments in favour of introduction of these local investment incentives are based on their success internationally and locally in the two aforementioned cities and that through innovation and appropriate alignment these policies could be improved and rearranged to increase their impact and effectiveness. However, instead of serving as substitutes, these policies are expected to complement existing policies targeted at improving the local business environment. Territorial competition is a process where local groups act on behalf of the local government to promote the locality as a preferred business investment

destination by competing for business investment (Cheshire and Gordon, 1996; Rogerson, 2009).

Place marketing activities are the most common form of investment incentives worldwide; however other forms of investment incentives which cost large sums of money are used in many countries. Local investment incentive policies resemble national investment promotion strategies in that they are part of local governments' reforms to nurture a sound business climate for investors. Introduction of local investment incentives can be done in different forms including cash or near cash assistance, low interest rate finance, cheap land or buildings, provision of customised infrastructure, and training for workers.

Rogerson (2009) argues that local governments are currently under mounting pressure to improve local business environments through LED, particularly due to globalization and decentralization forces. In South Africa the national government identified creation of a conducive business environment as key for local economic development i.e. increased business activity, creation of employment and poverty reduction. Current LED policy initiatives in South Africa focus mainly on regulatory reform and reduction of bureaucracy in matters of business development. Well-resourced and larger municipalities have undertaken to introduce investment incentives as a way of attracting investments and of promoting their localities as preferred investment destinations (Rogerson, 2009).

Some municipalities in South Africa have a history dating as far back as the 1920s and 1930s of using municipal incentives to attract investors, mainly industrial investors. Investment incentives were used during the apartheid years as well, as part of national government driven top-down spatial planning process which sought to attract investors to local business centres. During this period, local economic development rose high on the government's development agenda, thereby creating an opportunity for reintroduction and increased use of local investment incentives to promote localities. The Ethekewini municipality (Durban) has been in the forefront of efforts to introduce local investment incentives as a means to attract investors to its locality. This municipality started in 2001 by commissioning a report on policy parameters regarding the introduction of direct investment incentives. The report

drew on international experience of applying national and local investment incentives to promote their jurisdictions as attractive investment destinations. These government efforts of marketing and promoting localities were successful in attracting investors to their jurisdictions. Investment incentives were more effective in export-oriented countries, in countries that are similar to their neighbours, where business climate is favourable and predictable, and where incentives were offered earlier in project life with greater certainty. Even though investment incentives are critical in decision-making regarding investing in a locality, they should not be used in isolation but rather to complement other local economic development strategies which are aimed at promoting the attractiveness of a locality to potential investors (Valodia, 2001; Rogerson, 2009).

The report identified six essential factors which should be used in conjunction with investment incentives to achieve the desired outcomes. These included (1) an adequate effective and efficient process to receive investors and approval of plans such as town planning, building and Environmental Impact Assessments (EIAs); (2) adequate information on local investment environment and the locality's competitive advantages; (3) an investor-friendly local administration; (4) clear policies and procedures for dealing with investors; (5) clear after-investment support and management policy; and (6) an incentive package that supplements and does not substitute the above factors.

Further, two approaches to the design of incentive packages were identified, viz. ad hoc and rules-based regimes. Under ad hoc regimes, governments are required to grant incentives only to those investors whose investment decisions are affected by incentives. In addition, this type of incentive should be tailor-made for the specific conditions of the potential investor. However, it is rather difficult to implement ad hoc incentives for reasons including (1) complexity and availability of information about the investor required to make a decision about an ad hoc incentive; (2) political pressures to incentivise domestic rather than foreign investors; (3) considerations of fairness and precedence where later investors would also expect incentives as with pioneering investors even though it may not be necessary to offer incentives to attract them; (4) discretion of officials in offering incentives may lead to corruption.

Rules-based regimes provide and define guidelines for provision of investment incentives so as to overcome challenges of discretion and the negative factors of the ad hoc approach as explained above. However, rules-based approaches also face challenges including difficulty to specify rules that will result in incentives of the correct size and the right conditions. Further, this approach is criticized for giving incentives to investors who would still have invested in the absence of investment incentives and for failing to grant tax incentives to investors who would only invest if granted incentives. Transparency in the rules-based approach is another weakness in that most role-players are not in favour of transparency in granting incentives. Rogerson (2009) argues that a third approach of investment incentives might be a combination of ad hoc and rules-based approaches.

This hybrid approach would grant a standard set of incentives to market the locality to both international and domestic investors. In addition, this standard package would be supplemented by an ad hoc approach to target certain key, pioneer investors. Important considerations in the design of investment incentives include the following: (1) careful design of incentives and monitoring of tax returns to mitigate dangers of offering incentives; (2) accurate timing and sector targeting since different firms require incentives more during specific periods of their business life cycle and in specific sectors; (3) incentives must be linked and aligned with key policy objectives e.g. targeting investments in emerging sectors, shifting the growth trajectory of the local economy, environmental considerations, inner-city regeneration, development of small, medium, and micro enterprises (SMMEs), and black economic empowerment (BEE).

3.6 PRO-POOR LED

Many small towns especially in the rural areas of South Africa are experiencing an economic decline. LED planning is used in these areas to revive economic activity and to reverse economic decline. The poor and very poor populations are found largely in these rural and small towns. LED interventions in these areas should be pro-poor in nature as compared to those used in urban and bigger cities. In addition to economic decline these small and rural towns also experience severe poverty and

limited capacity and resources. Economic revival strategies of LED in these small towns often focus on tourism-led development approaches and community-based tourism projects. LED in these areas capitalizes on the potential of their tourist attractions by linking them to branded tourism routes, thereby creating a symbiotic relationship between small towns and main tourist routes. Another avenue for economic revival in rural towns lies in the agriculture-led development potential of these areas.

However, the success of LED in agriculture-led development in these rural areas depends largely on the success of land reform and the restitution process (DRDLR, 2014). As an example, the Senqu Local Municipality; part of the Ukhahlamba District in the Eastern Cape is one of the most rural municipalities in the country with unemployment rate of 85%. 75% of the population in this area earned less than R800 per month in 2007 and a significant portion earned no income at all. In addition, levels of poverty in this area are very high despite improvements in access to education, electricity and clean water in the past decade. The Senqu municipality identified LED in its Integrated Development Plan (IDP) as one of its key priorities to accelerate development in the area. The municipality has introduced reforms to address capacity challenges which include increasing the number of LED staff in the municipality and rearranging reporting lines of its staff (Parhans, 2007).

Organisational reforms are expected to improve implementation of LED in the municipality and these include appropriate positioning of LED within the organisation's structure, enhancing integration between the LED unit and other departments, increasing the prominence of LED, reducing bureaucracy, and increasing response time of the LED unit. In addition, the municipality undertook to develop a separate LED strategy which used to be part of the IDP. LED is expected to have a positive impact on income generation as well as social development aspects including high levels of child mortality, HIV/ AIDS infection, and malnutrition. The local economy of the Senqu municipality is centred around agriculture, some agro-processing and tourism. Therefore, the key priorities of LED in this area will include agriculture and tourism (Parhans, 2007).

Integration of various localities both low-base and medium-to-high base districts should be encouraged to ensure inter-district collaboration, network-building and exchange. Such an arrangement is particularly necessary for the diversification of the economy and to ensure growth in all economic sectors. Pro-poor LED initiatives afford poorer and rural communities and local municipalities the opportunity to exploit the economic potential of their environment which is largely small-scale agricultural and tourism based. Such an holistic and integrated approach to LED should form the foundation and the thrust of the country's LED drive in line with the diverse economic, infrastructure, resource and geographic character of the country's municipalities. This section explores pro-poor LED initiatives which could be implemented in poorer municipalities to ensure economic growth, job creation, income generation and poverty alleviation, thereby contributing to local economic development.

3.6.1 Agriculture-based local economic development

The expansion of small livestock farming in sheep and goats and farmworker enterprises could provide an area of opportunity for LED in this area. Downstream linkages to the wool and meat-processing industries could be established as an extension of LED in the area. Increased investment and marketing in the cattle farming sector could lead to its expansion and growth, thus contributing to LED. Organic farming presents another potential area of opportunity within the agriculture sector for economic growth of the municipality. Vast tracts of municipal and tribal land could also be exploited through support of the commonage programme to drive LED in the area. The Ukhahlamba district is the largest producer of crops i.e. maize and wheat in the region and this crop production could further be used as source of fodder for livestock farming in the region, thus re-emphasizing the importance of creating local rural networks and business linkages within the agriculture sector for improved local business activity.

The Orange River is a natural source of water supply for irrigation of potential vegetable production. Incorporation of indigenous knowledge in LED is exemplified by the pelargonium project in which an indigenous medicinal plant is harvested and

developed in a joint venture between the Senqu Municipality, the Medical Research Council (MRC) and the German pharmaceutical company; Percavel. This project has the potential for creation of employment for 130 locals, thereby contributing to reduction of high levels of unemployment, economic growth, and poverty reduction in the Sterkspruit area. Another area of opportunity is in the fruit production sector particularly because of its labour input requirements, thus contributing to job creation.

The Land Care Programme of the Department of Agriculture, Forestry and Fisheries which addresses protection of fragile ecosystems together with the land reform programme present another opportunity for economic development and job creation through employment of community-based workers and linkages to other extension programmes. Agro-processing through small scale meat and grain processing activities have the potential to revive the food processing sector in the region. This could further be strengthened by provision of branding services for food products, dairy products and the establishment of an abattoir to handle livestock. A garment production industry could also be established by processing wool from sheep and alpacas bred in the region, thus contributing to economic development and job creation (Parhanse, 2007).

3.6.2 Tourism-based local economic development

The natural and cultural environment of the area which cannot be exploited for agricultural production could be protected and developed for tourism purposes, thus providing for economic growth in the area and preservation of the ecology. Sustainable tourism and other industries linked to it such as provision of services to tourists serves as an entry channel for local communities because of its low entry requirements such as low financial capital requirements and infrastructure. Thus, this form of tourism carries tremendous potential to increase economic development in rural areas and to make a positive impact on the lives of the local poor. Government support in upgrading major roads leading to these small towns and linking them to major urban routes will contribute to their economic growth potential. Snowball and Courtney (2010) argue that protection and promotion of cultural heritage sites such

as the Liberation Heritage Route in South Africa could serve as revenue-generating activities that could then contribute to LED through job creation, local economic growth and poverty reduction.

Economic synergies could be developed by linking the local cultural tradition in the form of community-based ventures with existing mainstream tourism ventures in joint marketing and business mentoring ventures (Parhans, 2007). In Alicedale, a former railway town in the Eastern Cape a process of economic revival involves the formation of strong public-private partnerships (PPP) where the local community, business and government work together to promote tourism-based development (Gibb and Nel, 2007). The Alicedale case is particularly important because most research on local economic development has focussed predominantly on large urban areas. Experiences of LED in small rural towns is equally important for research and development as challenges and opportunities characteristic to these areas could be of great benefit in the process of designing appropriate and effective interventions for LED.

Economic decline in small rural towns has been the result of rural de-industrialisation, rationalization of agricultural industries, and the shift of economic activities to larger centres. This trend has led to high levels of unemployment and low economic growth in these areas. However, for small towns in other countries such as Canada, the United States, the United Kingdom and Australia that have experienced economic decline in favour of larger cities, they have been able to revive their economies by refocusing their economies on the service sector activities. This refocus has been possible and effective for those towns that are closer to larger urban centres, are situated along major urban transport routes, have educated populations, and have favourable environmental conditions. In these countries, the success of small towns in reviving their local economies lies in their ability to form Private Public Partnerships (PPP) and to channel human capital to promote economic revitalization. In South Africa economic decline in small towns can be reversed through effective implementation of LED policies. The process of LED in South Africa is mandated by government policies and also driven by economic necessity.

The success of economic revitalization among South Africa's small towns has been limited. However, the small railway town of Alicedale has managed to promote itself as a major tourism destination. The success of this town lies in its partnership-led LED initiatives. The major development question then focuses on whether or not economic benefits of such success benefit the impoverished local communities or the business sector only. Alicedale was established and run by the then Cape Government Railways in the 1870s as a railway junction town. Economic activity of the town was driven mainly by its function as a railway junction, but that activity declined in the 1980s as a result of the reduction in train traffic to the town, especially to Grahamstown (50 km away). This decline was further exacerbated by major retrenchments in the railway industry as new diesel and then later electric traction trains were introduced and replaced steam engines which required large numbers of staff for maintenance. In 2006 the population of unemployed locals in Alicedale was nearly 50%.

The closing down of businesses in the town led to many people leaving for other towns in search of jobs. However, a joint venture between the government and local businesses in the form of PPP led to the economic revival of the town. The partnership was formed to replicate the success of the Shamwari Game Reserve which boosted economic growth and created employment for 300 locals in the neighbouring town of Paterson (Gibb and Nel, 2007). Sebola (2011) argues that commercialization of game and nature reserves usually benefit private businesses and the few politically connected local elites while the majority of the poor local citizens continue to be marginalized. This resultant partnership was called the Qhorha Project and involved the provincial government, the Makana Municipality, local businesses and the local community. Further, the partnership set up Alicedale Investments, a body through which project finances were channelled. Economic activities which emerged from that partnership include establishment of a hotel, a golf estate, and a game reserve complex. In order to ensure sustainability of the LED initiative, the partnership set itself objectives which included maximising job creation, stimulating entrepreneurship and economic activity, SMME development, and contributing to BEE (Gibb and Nel, 2007).

3.6.3 SMME support and extension

SMMEs are a critical component of the local economy and thus should be part of LED strategies. SMMEs require viable business and a financial support system for them to grow and succeed. Banks should play a more proactive role in supporting SMMEs and local community-based savings schemes, which collectively will contribute to wealth creation and local economic growth. Government, especially the Department of Agriculture, should work in partnership with local farmers to strengthen and expand mentorship support to emerging farmers (Parhane, 2007). Joint ventures between established local business, farmers and government in support of emerging businesses will provide the necessary support network to encourage increased local business activity.

The Malealea lodge model in Lesotho is a perfect example of local business initiatives to create business-community ventures to promote local economic development. In this model the lodge established local community ventures in the area, created a community trust and created a local tourism network involving local tourism businesses such as accommodation and tourist guide operators. However, Parhane (2007) argues that government support should not focus exclusively on small black businesses, but should also support expansion of established white tourism businesses in the locality which will then increase their capacity to support and mentor emerging black businesses.

3.6.4 Maximising impact of other local development initiatives

Government programmes aimed at improving the livelihoods of communities and providing both short and long-term development support include the Expanded Public Works Programme (EPWP) and the Municipal Infrastructure Grant (MIG) programme which seek to create short-term employment opportunities for local communities and to improve local infrastructure, respectively. These programmes impact on the objectives of LED by increasing employment creation opportunities and improving the local business environment. Various government programmes also impact positively on LED, including funding for tourism and small enterprise development by the National Department of Trade and Industry (DTI), capacity

building support to municipalities by the Development Bank of South Africa (DBSA), skills development support by the Department of labour (DoL), and training support by Sector Education and Training Authorities (SETAs) (Parhane, 2007).

It is therefore crucial to foster alignment, integration, and coordination of such development programmes to harness and enhance their collective impact and to create synergies. Training for municipal workers to improve their development and effectiveness in delivering public services is of critical importance (Schumaker, 2004; Xuza, 2007). The government's low cost housing programme presents opportunities for local economic development through entrepreneurship development, local savings schemes, skills development, local ownership, and maximising economic benefits and wealth redistribution from cash injection through government housing grants. Further, rolling out government social programmes of community-based workers in the provision of community social services extends the earning potential of communities through provision of wages. It is however important to increase community commitment in such programmes by shifting from the generally perceived top-down, centrally driven approach of LED programmes to participatory types of approach in which communities have a sense of ownership (Parhane, 2007; Cahill, 2008).

Cahill (2008:12) emphasizes the importance of community participation and empowerment in local development by "building on existing local resources and practices of everyday life". Furthermore, a more participatory approach would lessen community dependency, encourage community initiative and promote active community participation in development (Parhane, 2007:114; Cahill, 2008). Participation would further promote commitment by involving various sectors of the public sector, private sector and various forms of social community structures. For example, an LED forum led by a committed committee would strengthen LED projects and provide the desired direction for development and creation of economic development opportunities (Parhane, 2007).

3.7 LED FUNDING

Marais (2010) argues that most donor-driven LED projects are biased towards supply-side approaches instead of developing a more balanced approach that takes into consideration the market or demand-side aspects. LED programmes focus more on legal compliance than on the quality of the end product. Further, these programmes do not produce differentiated products and services that are appropriate for the poor. In addition, the success of LED programmes has been confined largely to the large urban areas with smaller urban settlements and rural areas not benefiting from such LED initiatives (Marais, 2010). Small towns are generally in a phase of economic decline as seen with Alicedale, a former railway town in the Eastern Cape (Gibb and Nel, 2007). This trend of bias towards economic development in urban areas continues despite rural areas experiencing major development challenges.

The dire development situation in smaller urban settlements and rural areas therefore requires urgent attention in the form of LED initiatives and policy reform. The European Union funded the Gijima programme of the Department of Economic Development and Tourism (DEDT) in KwaZulu Natal which is one such intervention targeted at smaller urban settlements and rural areas. Such donor-funded projects tend to be supply driven and thus prioritize inputs such as infrastructure, donor finance systems, and technical expertise instead of focusing on opening markets for the poor. In other words, donor-funded LED projects tend to prioritize the needs of the investors more than those of the local communities. A more balanced approach of donor-funded LED projects would be more appropriate by prioritizing both local and donor needs. The Gijima programme also known as the KZN LED Support Programme is a 6-year programme aimed at supporting the provincial DEDT and its partners effectively to implement LED policy and to achieve equitable economic growth in the province.

The programme sought to achieve this equitable economic growth by focusing on three objectives viz. promoting pro-poor LED, building local government capacity, and increasing local competitiveness by building partnerships. The Gijima programme consists of three sub-programmes viz. Business Enabling Fund (BEF),

the Local Competitive Fund – Competitive Action Plan (LCF CAP), and the Local Competitive Fund Implementation Plan (LCF IMP). The LCF IMP provided finance for implementation of the Gijima Programme. The focus on LED increased as a result of globalization, reduced central and provincial government involvement in LED and the increase in decentralization. Central government involvement in LED has had limited success, thus necessitating its reduced involvement in this process (Gibb and Nel, 2007).

Section 152 (1) (c) of the Constitution (RSA, 1996) empowers local government to promote social and economic development as part of its functions. LED is also an integral component of the Integrated Development Plan (IDP) of all municipalities which serves as an inclusive and strategic plan and a policy framework for the development of municipalities on which annual municipal budgets must be based (Local Government Municipal Systems Act, RSA, 2000). Government continues to prioritize local economic development by emphasizing its importance in the implementation of public policies, particularly in increasingly challenging economic times where municipalities and all other government spheres are required to spend their revenues efficiently (MFMA circular No 51, RSA, 2010). Other government publications such as reports and policies which impact on LED include Municipal Structures Act (117 of 1998), the White Paper on Local Government (Act 108 of 1996), the 2002 LED Policy – refocusing development on the poor (DPLG, 2002), the 2004 LED Policy – LED Policy and Strategy (DPLG, 2004), and the 2005 LED Policy – Robust, National LED Framework (RSA, 2006) and Inclusive Municipal Economies (Rossouw-Brink, 2007; Nel and Rogerson, 2007)

3.8 SUMMARY OF CHAPTER THREE

Local economic development presents opportunities for various local stakeholders including local government, business and communities to work together by effectively engaging the available resources to create jobs, attract investments, expand businesses and to reduce poverty in the locality. The local government in particular has a responsibility to create a favourable business environment for potential investors and for existing businesses to grow. It is also important for a

developing country like South Africa to adopt some of the best practices and strategies in LED from other parts of the world where localities have managed to grow their economies and have created lasting and sustainable institutions, business networks and a supportive business environment.

Some of these strategies are found in countries like the United States which have used methods such as city-county consolidation to reduce bureaucracy and to improve governance, thereby promoting their jurisdictions, facilitating business development and increasing employment levels in the new jurisdictions. In line with such reforms is the need to review existing institutional arrangements to ensure flexibility in supporting business growth and in promoting the locality as a preferred investment destination. In matters of regulation, China is a good example of regulatory reform and liberalization in favour of investors and business to accelerate business growth and in creating a favourable local business environment.

Liberalization facilitates decentralization and affords local government the ability to respond more effectively to local circumstances. In addition, LED creates a conducive climate for forging and fostering public-private partnerships which have the potential to strengthen the commitment of all stakeholders to the course of local economic development, thereby creating a more equitable redistribution of local resources and economic benefit for all stakeholders. The formation of public-private partnerships allows community and wide participation thereby strengthening democracy, the strategic planning process and rendering the development plans and policies more effective, consistent and responsive to the local economic needs and goals.

LED is particularly important for South Africa given its high level of unemployment (25.2%) (Statssa, 2013) which is one of the highest in the world. Further, the country has a major challenge with regards to the shortage of skilled labour which is a critical requirement for business growth, especially in specialized and technical sectors and industries such as information technology and manufacturing. Therefore, as one of its key priorities regarding local economic development, local governments must ensure that their policies and strategies include skills development and training

programmes which will increase the pool of skilled labour required for establishing and growing businesses.

National legislation on LED provides a policy and legislative framework that mandates local government to nurture favourable conditions for establishment and expansion of business. Some of the constraints for potential private business investments in South African localities which must be addressed by local governments include crime, safety and security, infrastructure, the rising cost of doing business, skills shortages, unstable exchange rate, high labour costs, bureaucracy, burdensome labour regulations and limited working relationships between local authorities and local investors. Municipalities must introduce territorial competition in the form of local investment incentives to supplement existing local economic development strategies in an effort to promote the particular locality as a preferred investment destination.

Local investment incentives can take different forms including cash or near cash assistance, low interest finance, cheap land or buildings, provision of customised infrastructure, and training for workers. LED policy in South Africa is biased towards larger urban areas and small rural towns are always at the receiving end of policies aimed at reviving local economies. However, the introduction of tourism and agriculture-led development creates some hope for small rural towns to benefit from growing international tourism and agricultural production. The success of economic development initiatives in these small towns depends on the creation of linkages between branded tourism routes and their tourist attraction potential.

Further, the success of agriculture-led development in these rural areas depends largely on the success of land reform and restitution process. In addition to the above, SMMEs in small rural towns require adequate and effective business and financial support to grow. Further, government-business and community partnerships are necessary to create a supportive and favourable business environment for increased business activity and growth of the local economy. LED strategies in small rural towns should harness the potential of other government programmes such as Expanded Public Works Programme (EPWP) and Municipal Infrastructure Grant (MIG) to support local economic initiatives. Other government programmes which

could be harnessed to increase the impact of LED include funding for tourism and small enterprise development by the National Department of Trade and Industry (DTI), capacity building support to municipalities by the Development Bank of South Africa (DBSA), skills development support by the Department of labour (DoL), and training support by Sector Education and Training Authorities (SETAs).

Donor funding for LED must be structured in such a way that it prioritizes both investor and local community needs rather than focusing only on the needs of investors. In South Africa a vast array of government legislation and policies supports the implementation of LED policy and provides the framework for effective participation by various sectors of the local economy including government, business and the local communities. This legislation takes cognisance of the challenges facing local government and business in promoting local economic development and creates flexibility for local governments to respond to and address constraints to local business investment and growth.

Chapter 4: Economic sectors and LED

4.1 INTRODUCTION

Various sectors of the economy contribute in different ways to the GDP and socio-economic wellbeing of the country. This is largely due to the vastness of the country and its diversity in geographic location of resources and development. The sectors which contribute significantly to the country's economy include financial services, manufacturing, agriculture, energy, and information and communication technology. However, out of all these sectors mining contributes the most in terms of job creation i.e. nearly 500 000 directly and another 500 000 indirectly (Leon, 2012a; *Mining Weekly*, 2014; *Engineering News*, 2014), thereby contributing significantly to LED. The country's rich mineral resources therefore make the mining sector one the most important economic sectors. Local government in mining areas therefore needs to find measures to harness the potential of mining to drive LED in their jurisdictions.

Local government in South Africa has a developmental role and is mandated and empowered by a range of policies and legislation to lead the LED process and other related planning processes such as integrated development planning (IDP). Local government plays a central and leading role in the formulation, planning and implementation of LED policy and is therefore required to be at the forefront of all economic and social development processes in localities (RSA, 2000, RSA, 1999, RSA, 1996). However, given the challenges of inequality, high unemployment rate, poor infrastructure, skills shortage and the skewed economy, local government finds it difficult to grow the local economy, create jobs and significantly reduce poverty as envisaged by its developmental mandate. It is therefore crucial to find measures and means of strengthening local governments to effectively and adequately address LED constraints.

The mining industry is the largest contributor to the country's foreign exchange earnings, thus it is an important sector of the country's economy. This chapter focuses on the role of the mining industry in promoting business growth and on improving socio-economic conditions for localities and its people through poverty

reduction, enterprise development and job creation, among other development initiatives. A range of policies and legislation requires mining enterprises to work in partnership with government and other stakeholders in pursuit of socio-economic objectives. Such partnerships ensure commitment by mining companies and that development initiatives by all stakeholders are aligned to key development objectives and priorities of the local government. This coordinated approach towards local economic development will ensure integration, alignment, and coordination of all efforts and development initiatives by all stakeholders, thus achieving synergies and efficient utilisation of resources.

Mining has for over 50 years been a major contributor to the country's economic growth, job creation, foreign exchange earnings, and GDP growth. However, other sectors such as manufacturing, services, and finance have recently overtaken mining as the major contributor to the country's economic growth. The country's mineral wealth makes the mining sector the backbone of the country's economy despite its decline in productivity in recent years. The success of any development initiative depends on the participation of various stakeholders, particularly the communities at which these developments are targeted. It is therefore crucial for mining companies to form partnerships with government, labour and the public to ensure that all socio-economic development initiatives achieve the desired objectives and prioritised needs.

The mining industry is expected to contribute to community development through such initiatives as poverty reduction, human development, social justice, equity, and public inclusion as part of its Corporate Social Responsibility (CSR) programmes. However, the motive for engaging in CSR is questionable at times as it is often seen as a public relations exercise by the mining companies to protect their commercial interests, rather than genuine intent to contribute to community development and poverty reduction. The ensuing paragraphs discuss the role of the mining industry in socio-economic development in different dimensions, including enterprise-government partnerships, community development and environmental impact of mining operations.

4.2 SOUTH AFRICAN MINING INDUSTRY

The mining industry is the backbone of the South African economy and is worth \$US 357bn (Leon, 2012a). The South African mining industry is the biggest in Africa and is the basis of the country's industrialization. The country has the largest mineral reserves in the world estimated to be worth \$US 2.5tn. Yet, the country's mineral production dropped in quarter three of 2011 by 12 per cent resulting in a drop in policy potential ranking of 67 out of 79 of the world's major mining countries by the 2011 Fraser Institute survey. South Africa's mining production lags far behind those of other major mining jurisdictions such as Chile whose mining industry contribution to the Gross Domestic Product (GDP) increased by 12 per cent (Leon, 2012a; *Mining Prospectus, 2014; National Development Plan 2030, 2011*).

Leon (2012a) attributes South Africa's decline in mining production to the uncertainty in the country's mining regulations which came as a result of the implementation of the Mineral and Petroleum Resources Development Act of 2002 (MPRDA) which came into force in 2004. The enactment of MPRDA replaced private ownership of mineral rights with state custodianship and conditional state licences. The Mining and Petroleum Resources Development Act (MPRDA) of 2002 and the Mining Charter of 2010 require mining companies to contribute to local economic development initiatives in line with the development objectives of local government where they operate, including in labour sending areas. The MPRDA is an important piece of legislation that ensures socially, economically and ecologically sustainable development and extraction of mineral resources.

Leon (2012a) argues that the decline in mineral production due to the enactment of the MPRDA is further exacerbated by its socio-economic objectives, especially black economic empowerment (BEE) and its link to wide ministerial discretion. However, it is also important to mention that the policies of the former apartheid government in South Africa were designed economically, politically and socially to marginalize black people who constitute the majority of the population (RSA, 2011). When the African National Congress government ascended to power in 1994 it was necessary to devise mechanisms to redress political and socio-economic imbalances of the past, hence the introduction of BEE which was based on successful implementation of

similar strategies in countries such as Malaysia (Naguib and Smucker, 2009) and the United States to create a more equal and balanced society.

It could be argued that the introduction of BEE was necessary not only to redress the imbalances of the past but also to create a more stable and conducive environment for economic growth and stability since a robust and growing economy depends largely on effective means of production. These means of production could include land, natural resources, minerals (RSA, 2010), a well-educated and skilled population, an effective government and favourable regulatory regime which are all essential requirements for business growth. An element of BEE which specifically seeks to address skills shortages and empowerment of people and thereby to contribute to developing a productive and effective labour force is the affirmative action (AA) policy. Similarly, this policy was implemented successfully in other parts of the world including Malaysia (Naguib and Smucker, 2009) and the United States to afford the formerly oppressed and marginalised people (the Bumiputras in Malaysia and Blacks in the United States) in these countries opportunities for socio-economic development and empowerment through training and development and preferential treatment in employment.

Employment creation as a significant contributor to income distribution has long been a critical part of the liberation movement alliance's (ANC/ COSATU/ SACP) economic development strategy since the inception of the Macro-Economic Research Group (MERG) and Industrial Strategy Project (ISP) initiatives prior to the democratic dispensation in South Africa (Ismail, 1994). Broad-based black economic empowerment (BBBEE) on the other hand seeks to empower historically marginalised people (Africans, Indians and Coloureds) through such policies and strategies as preferential procurement, SMME development, mentoring, shareholding, business ownership and increased access to funding opportunities among others.

Leon (2012a) argues that some of the negative outcomes of the MPRDA – which in his opinion is vague and ambiguous, and the new mining regulatory regime include delays in mining licencing. He argues further that one of the main weaknesses of BEE is its promotion of narrow rather than broad-based ownership of the mining

industry. The narrow focus of BEE has driven the African National Congress Youth League (ANCYL) to call for nationalization of the mining industry in the country (Leon, 2012a; Rogerson, 2011). The ANC-led government distanced itself from calls for nationalization of mines, but has nonetheless become more interventionist in the industry as seen with its revival of the state-owned mining company and the opening of its first coal mine. Concerns in the industry were further raised by a study by the ANC's research committee on the feasibility of the nationalization of mines.

However, these fears were allayed when the ANC announced during its 2012 quinquennial elective conference its support for continued privatization of the mining industry (Leon, 2012a). The ANC's research committee produced the 'state intervention in the mining sector' (SIMS) report which was released in 2012 and condensed into a discussion document for the ANC national policy conference of December 2012. This SIMS report rejected the wholesale nationalization of the mining companies as unaffordable and unconstitutional. However, the report retained the option to nationalize specific companies for strategic monopoly-priced minerals as seen with the revival of the state-owned mining company (Leon, 2012). In alignment with the ANC's position on the nationalization of mines, the Minister of Mineral Resources implemented a number of policy and regulatory reforms to address challenges facing the mining industry, including proposed amendments to the MPRDA.

The mining industry is critical to the South African economy as it contributes 5.3 per cent to the country's GDP and provides direct employment for 500,000 people and a further 500,000 indirectly. Mining, mineral and secondary beneficiated products contribute nearly 60 per cent to the country's export revenue, further illustrating the importance of the industry to the country's economy. The country's mineral endowments include an estimated 89 per cent of the world's platinum reserves and 13 per cent of its gold reserves. In addition, the country possesses significant reserves of hafnium, chromite, zirconium, manganese, vanadium, fluorspar, nickel and phosphate rock. These staggering mineral endowments positioned the country at number 5 in world rankings in terms of mining contribution to GDP in 2008. In 2010 the mining industry in South Africa, consisting of globally diversified mining companies, distributed \$US 49bn to its stakeholders. In this distribution 41 per cent

went to industry suppliers, 18 per cent to employees and communities, 11 per cent to government in taxes and similar charges, 21 per cent to the mines themselves, and 7 per cent to shareholders.

The GDP contribution of the mining industry in South Africa remained stagnant between 2001 and 2008 despite the country's impressive mineral endowment longest-sustained commodities boom in history. The situation in the mining industry worsened in October 2011 when mine production dropped by 12.7 per cent year on year. The country has the largest mineral reserves in the world, with Russia coming second at mineral reserves estimated at \$US 1.6tn, one trillion US dollars less than South Africa, yet its rate of new investment growth is the lowest among the world's major mining jurisdictions. The country's ranking on the potential policy index which measures the attractiveness of mining destinations to investors continues to slip. It slipped from 28 out of 47 jurisdictions in the 2002/2003 period to 67 out of 79 jurisdictions surveyed in the 2010/2011 period. This fall in rankings represents the country's decline in attractiveness as an investment destination (Leon, 2012b; Rogerson, 2011). Accompanying this decline was the decline in South African mining and metals transactions over the last decade which fell from \$US13bn in 2001 to \$US2.9bn in 2010.

The situation in the South African mining sector illustrates the importance of developing appropriate socio-economic policies such as broad-based Black Economic Empowerment (BBBEE) and favourable policies and regulations to improve the attractiveness of a jurisdiction to investors. Also, the huge amounts of revenue distributed by the mining industry to its stakeholders, especially government, local businesses, employees and local communities illustrate the significant role that increased business investment and activity can play in growing the economy and creating employment for local communities, thus contributing to sustainable local economic development.

Despite Leon's (2012a) views criticizing economic policies of the government especially in relation to the mining sector, the legacy of policies of the former apartheid government and the current neo-liberal policies of the ANC-led government (e.g. GEAR which seek to be investor friendly and to promote economic

growth) continue to subject millions of poor and marginalized black people to abject poverty and dire economic conditions. These policies continue to perpetuate economic division along racial lines as created by the apartheid government which Schneider (2003) refers to as economic apartheid. Despite these divisions, the ANC-led government continues to support through its economic policies neo-liberal economists such as Leon (2012a) who continue to press for an unregulated market system which is likely to exacerbate poverty and the dire economic situation among blacks in South Africa (Schneider, 2003).

The practice of neo-liberal economic theory is a major stumbling block towards fundamental change in the distribution of land, income and assets in South Africa which is necessary to achieve equality and to reduce poverty in the country. Schneider (2003) argues that neo-liberal policies are driven by ideological attachment to free markets rather than to practical analysis of the outcomes of market forces in an unequal society like South Africa. In designing economic policies for the country it is important to assess the outcomes of both approaches to economic development i.e. the free market system and redistributive strategy. Further, the free market system is narrowly defined in terms of GDP growth and allocative efficiency, thus discounting the problems created by inequality and poverty (Schneider, 2003). Leon (2012a) advocates continuation of structural adjustment programmes (SAPs) which are macroeconomic measures designed to foster economic growth despite their failure in countries such as Peru where they were introduced and implemented for more than three decades (1970 – 1990). SAPs are based on the belief that appropriate macroeconomic policies are sufficient to reorganise and revitalize national economies regardless of their organisational history or institutional character (Plaza and Stromquist, 2006).

Neo-liberals believe that large scale macroeconomic policy change and not targeted or sectoral policies can revive national economies, hence their support for SAPs. The first phase of the implementation of SAPs focuses on financial stabilization with the aim to halve the decline in state solvency. This process of financial stabilization involves introduction of user fees, reduction of public sector employment, and the removing of subsidies. The second phase focuses on structural adjustment of the economy with the aim to reorganize the economy through deregulation, market

liberalization, fiscal austerity, balanced budgets, devaluation, privatization, tax reforms and flexible interest rates. Introduction of these multiple measures seeks to revive struggling economies by increasing their efficiency and productivity.

Whilst their focus is on urban areas, neo-liberal policies have a more detrimental impact on rural settings by eliminating subsidies and overlooking problems of small-scale enterprises. In Peru proponents of SAPs recognised the application of macroeconomic policies alone would not be sufficient to achieve economic revival and growth and that instead these policies would need to be accompanied by poverty-alleviation measures. However, these proponents were convinced that social spending for poverty alleviation needed only to be temporary since structural adjustment was expected to revive the economy and its effects to trickle down and thus render social spending unnecessary. Further, proponents of SAPs believed that poverty would be reduced by creating a dynamic and competitive labour market instead of government employment that is protected from labour market competition (Plaza and Stromquist, 2006).

A neo-liberal view of a competitive labour market is not feasible because labour markets in capitalist economies are not homogeneous, but rather consist of four main segments: “(1) a labour market linked to monopoly capital, usually transnational; (2) a secondary labour market responsive to the demands of competitive capitalism; (3) a public market protected from competition and represented by state employment, and; (4) a rapidly growing informal labour market that encompasses everything from illegal transactions to self-employment, domestic work, family enterprises, small scale subsistence activities, and numerous examples of casual work” (Plaza and Stromquist, 2006:13).

The informal business sector and resultant employment are increasing rapidly in developing countries and this includes a growing variety of productive enterprises. Another challenge with neo-liberal policies is the criteria they use to measure economic growth which is often not consistent as they use different indicators such as production, diffusion of a cash economy and growth of revenue (Plaza and Stromquist, 2006). A similar concern about the lack of consistency in measuring and

narrowly defining economic growth in free market systems by using such indicators as GDP growth and allocative efficiency, was expressed by Schneider (2003).

The greatest challenge of LED in South Africa as is the case in most countries such as Canada is found in resource towns, small towns and single industry communities (SIC) which are often affected by boom and bust cycles, structural changes in the economy and are vulnerable to regional and global forces and pressures. Clemenson (1992) in Turvey (2006) defines single industry communities as populations where 30 per cent or more of its labour force is employed in a single industry e.g. mining.

4.3 MINING ENTERPRISE-GOVERNMENT PARTNERSHIPS

Mining enterprises are increasingly recognizing the importance of partnerships in their business operations (Rogerson, 2011). Some of the efforts to promote the formation of multi-stakeholder partnerships with mines include the launch of a global initiative by a London-based International Council on Mining and Minerals which sought to strengthen the contribution of mining to development goals and poverty reduction. Mining enterprise-government partnerships represent innovative cooperation models for economic development and service delivery. However, such partnerships are not always the most effective way to deliver the desired socio-economic outcomes.

Rogerson (2011) highlights the important role played by mining as a major contributor to both national and local economic development. However, the functioning of the mining sector in South Africa is subject to a range of regulatory and legislative obligations, including the requirement to work in partnership with government to advance local economic development objectives. The government requires mining enterprises to develop Social and Labour Plans (SLPs) as a guarantee of their commitment to contribute to local economic development. In addition, the SLPs create an opportunity to develop strategies that serve as preparation for post-mining economy in those localities that depend on mining for

their economic wellbeing. Rogerson (2011) argues that a working and effective link between the SLPs and municipal Integrated Development Plans (IDP) is missing.

IDPs are the main development planning frameworks for municipalities in South Africa and encompass both social and economic development plans of municipalities. IDPs are developed for a period of five years and are reviewed annually to ensure alignment, efficacy and consistency with current and future municipal, public and business objectives. Mining enterprises are thus required to play a significant role in advancing some of these objectives such as socio-economic development of local communities through job creation and increased participation in local economy (Rogerson, 2011).

Mining has played the role of a key driver of economy in South Africa for more than 50 years. However, the mining sector has been overtaken by manufacturing, finance and services sectors in terms of its contribution to the GDP. The decline in the mining sector contribution to the economy of the country has raised concerns which have led to warning of the 'post commodity economy'. Despite this trend of declining economic contribution, the mining sector continues to play a pivotal role in the economy of the country. The mining sector contributes 7.9% to the country's GDP which increases to 18.4% if indirect multiplier effects are included. These multiplier effects include spin-offs accruing to other sectors linked to the mining sector such as manufacturing, transport, energy, finance, retail and services. In 2006 the mining sector contributed 32.3% to national total merchandise exports, 25.2% to total foreign exchange earnings, and 3% to employment i.e. 458 000 people. The ability of this sector to make such a significant contribution to the country's economy lies in the vast mineral wealth of the country which has more than half of the world's reserves of manganese, chromium and platinum groups and 40% of the world's vanadium, gold, and vermiculite reserves (Rogerson, 2011; Kemp, 2009).

South Africa was the biggest producer of gold for many decades and reached its peak production levels of gold in 1970. However the platinum group of minerals which includes platinum, palladium, rhodium, ruthenium, iridium, and osmium has since 2010 overtaken gold as the major mineral produced in the country and the main source of foreign exchange in the mining sector. This background to the vast

economic potential inherent in mining in this country illustrates the pivotal role that this sector could play in contributing to local economic development in the country if its potential was adequately and effectively harnessed. The process of harnessing the mining sector potential in local economic development matters relates to developing and introducing effective and progressive regulations and policies, among other initiatives with government playing a leading role.

The role of government in leading this process includes facilitating involvement and active participation of all stakeholders particularly the public and the mining industry to ensure attainment of a win-win situation for all stakeholders, unlike the current trend and situation where the poor locals continue to endure poverty despite enormous amounts of wealth being exported annually from their surroundings. Government must develop and enforce legislative and regulative control policies such that strong, effective and lasting partnerships are built between itself, the public and the mining industry.

4.3.1 Mining regulatory framework

The former apartheid government had less intervention in the mining sector, allowing it to be dictated largely by international market forces. The ANC-led government introduced a range of regulatory and legislative interventions to regulate the industry since 1994 when it ascended to power. Rogerson (2011) argues that state-intervention by the South African government in the mining sector was initially cautious but has recently become drastic by adopting a policy shift to model mining policies along those of countries such as Australia and Botswana. The new South African government's mining policy favours greater and active government involvement in regulating mineral rights. The South African government began to review the mineral and mining policy of the country in 1995 in a process which involved government, organised business, small-scale mining sector, labour, communities, and environmental groups.

The policy review process culminated in the release of a White Paper on Minerals and Mining Policy in South Africa in October 1998. This document covered six main

core themes pertaining to mining which included business climate and minerals development, participation in ownership and management, people's issues including safety, health and housing, environmental management, regional cooperation, and governance. Rogerson (2011) blames the South African government for failing to create a mining investor-friendly environment which has led to uncertainty and lack of confidence in the industry among investors. Further, local investors' worries increased due to debates on nationalisation of mines in which the ANC Youth League (ANCYL) has been very vocal. (Rogerson, 2011; Leon, 2012a).

Wheeler (2010) warns against any aspirations to nationalize the mines by citing the disastrous socialist economic policies of Cuba. In that country, which depended largely on exports of nickel for its foreign exchange, nationalisation i.e. state instead of private ownership of enterprises was an economic failure resulting in poor quality of life and low wages. Wheelers (2010) argues that the Cuban model should serve as a warning to the South African government of potential socio-economic consequences of nationalisation which will discourage the much-needed foreign investment required for local economic development, economic growth, poverty reduction and increased employment. Some local investors have sought to expand their operations outside the country as a result of these fears while China on the other hand has increased its investment in the South African mining sector (Rogerson, 2011).

4.3.2 Mineral and Petroleum Resources Development Act No 28 of 2002 (MPRDA)

The release of the White Paper on Minerals and Mining Policy in South Africa in October 1998 marked a watershed in the history of the South African mining industry in that for the first time the state intervened in the regulation of the industry. Such intervention was necessary given the history of the country that marginalized black people who constituted the majority of the population from participation in this sector of the economy through brutal and oppressive laws of apartheid (Rogerson, 2011; Kemp, 2009; Parnell, 1993; Le Roux, 1991). The only significant government legislation in the mining industry prior to the release of the White Paper was the Mine

health and Safety Act No 29 of 1996 for protection of the health and safety of employees and other people at the mines.

The White Paper formulated a policy that was later encapsulated in the Mineral and Petroleum Resources Development Act No 28 of 2002 (MPRDA) which regulates the prospecting for and optimal exploitation of minerals in the country (Rogerson, 2011). Amendments have since been effected to the Act to ensure relevance and alignment with latest socio-economic and political developments in the country. Some of the objectives of this Act include declaring the state as the custodian of the country's mineral and petroleum resources, promoting equitable access to these resources by all South Africans, facilitating benefit from and active participation in the mining industry by historically disadvantaged persons, promoting economic growth and development of these resources, promotion of employment and social and economic welfare of all South Africans, provision of security of tenure regarding prospecting, exploration, mining and production operations, promotion of ecologically sustainable mining operations, promoting social and economic development, and most importantly ensuring that holders of mining and production rights contribute to the socio-economic development of the areas where they operate (MPRDA, RSA, 2002; Rogerson, 2011).

The recognition of the state's ownership of the country's mineral rights is expected to facilitate access to privately owned land for mining and thus attract foreign investment and increase competition in this sector. Rogerson (2011) argues that the most central task of the Act is to provide a basis for transformation of the sector and the country's mineral economy in terms of inclusion and active participation of historically disadvantaged persons. The MPRDA makes an important provision regarding issuing of mining rights, that is submission by a mining right applicant of a Social and Labour Plan (SLP) as a prerequisite for issuing the mining rights.

An SLP is a document that requires the applicant to develop and implement a comprehensive human resources development programme and an employment equity plan in order to contribute to the transformation of the sector and to the achievement of socio-economic development objectives. Further, the SLP requires the applicant to develop local economic development (LED) programmes and

programmes aimed at saving jobs and managing mine downscaling or closure. Such LED programmes are expected to contribute to local economic growth, promote employment, to reduce poverty, uplift local communities, and to advance the social and economic welfare of all South Africans.

The LED plan contained in the SLP is separate from the Corporate Social Investment (CSI) initiatives that the mines are already expected to design and implement. The Anglo-American Group's Anglo-Zimele initiative which provides a range of support services to black-owned SMMEs is a good example of a CSI initiative. It is important to note that in other African countries like Tanzania, the mining companies are not legally obliged to contribute to local socio-economic development. These companies do have Corporate Social Responsibility Initiatives though very marginal and at the companies' discretion.

The marginal social investment by mining companies in Tanzania is illustrated by the 2000-2006 figures which indicate that during this period mining companies' investment in CSR grew by less than 1% whereas the commodity price for gold increased by 15.1% per year from \$US 272 to \$US 636 per ounce and gold production increased by 17.66% per year from 15 060 to 47 000 tonnes during the same period. The mining sector's relatively small contribution to the country's GDP is evident in its meagre contribution not only to GDP but also to direct employment, net foreign exchange, and tax. This trend is possibly one of the reasons why the mining sector in that country contributes a mere 2.3% to the country's GDP (Goldstuck and Hughes, 2010) as compared to 5-7% in South Africa (Leon, 2012b; Rogerson, 2011).

The LED aspect of the SLP differs from the CSI in that it requires the mining company to initiate, implement and support sustainable economic development projects both financially and non-financially. Further, the Act requires the mining company to align its LED programme with the IDP of the jurisdiction where it operates and where its workforce is sourced and to cooperate with the local government authority (district municipality) in the formulation and implementation of the IDP in matters relating to LED. This obligation further requires the mining company to engage with both the local government and communities and to

participate in their local development programmes in order to develop an effective LED programme.

The mine must provide the relevant local authority with its LED analysis in terms of number of jobs created, SMME development, infrastructure development, community development, poverty reduction, local housing and living conditions of the workforce (DME, 2008b). In addition, downsizing and closure plans must detail the process relating to management of downscaling, retrenchments, and regeneration of local economies which are expected to “minimize the impact of commodity cyclical volatility, economic turbulence and physical depletion of the mineral and production resources on individuals” (Rogerson, 2011:133. These contingency plans must be designed in line with the Department of Labour’s Social Plan Guidelines and might include activities such as counselling services, training programmes for self-employment and re-employment programmes.

Another important aspect of the MPRDA is the obligation it places on all mining rights or permit holders to manage their mining operations in an ecologically sustainable manner and to take responsibility for “any environmental liability, pollution or ecological degradation, and the management thereof until the Minister has issued a closure certificate” (Rogerson, 2011:133. In addition, the mining rights holder is required to submit an annual report on compliance with the SLP to the relevant government authority. The SLP is intended to achieve three main objectives namely; (1) to promote employment and to improve the social and economic welfare of all South Africans, particularly those where mining operations take place; (2) to contribute to the transformation of the South African mining industry in terms of inclusion of historically disadvantaged persons; and (3) to ensure that mining rights holders contribute to the socio-economic development of the areas where they operate and to the areas where the majority of the workers are sourced (RSA, 2000a).

The emphasis on the responsibility placed on the mining rights holders to develop the areas where most of their workforce is sourced is particularly important in South Africa given that most of their mine workers come from remote rural areas, predominantly in the Eastern Cape. These workers are thus migrant workers as most

have their families back in their home towns or areas. This trend of migrant workers is primarily due to low levels of education and skills among most rural people and the lack of employment opportunities in these areas. It is for this reason that it is important to emphasize the importance of human resources development in the mining companies' SLPs. This human resource development plan should design development programmes for their workers such as skills development, training, mentorship, internships, bursaries, employment equity and career planning and progression. The main objective of the Human Resource Programme component of the SLP is to ensure availability of the required skills for the mining sector and to equip the workers with the skills and competencies that they can use outside the mining sector (Rogerson, 2011), especially when downsizing or closure of the mine occurs.

Further, the obligation that the MPRDA places on the mining companies to take responsibility for management of their operations in an ecologically sustainable manner is quite pertinent to South Africa where many legal battles have been fought between mining companies and both locals and workers for negative environmental impact of mining operations on the locals and workers such as environmental degradation e.g. acid mine drainage, diseases and poor health, all attributable to the mining operations. The three main areas of the SLP are human resources development, the LED programme, and processes relating to downscaling and retrenchments, which must all be funded by the mining rights applicant. The MPRDA further obligates the mining company to comply with the SLP and to make it known to the employees.

The contradiction is that these SLPs are not made public once approved by the Department of Mineral Resources (previously the Department of Minerals and Energy - DME), thus limiting adequate and effective government and community engagement with the mining company on matters relating to their key development objectives i.e. human resources development, LED, and contingency plans for downscaling, closure, and retrenchments. Local municipalities in mostly remote and rural areas rely heavily on the SLPs of the mines for their LED as there are few investors in these areas. Hence, lack of access to the mining companies SLPs

severely constrains and limits their ability to effectively advance their LED objectives (Rogerson, 2011).

4.3.3 The mining industry charter

The Broad-Based Socio-Economic Empowerment Charter (BBSEEC) also known as the Mining Charter seeks to effect sustainable growth and meaningful transformation of the mining industry (RSA, 2002; RSA, 2010; Rogerson, 2011). The Mining Charter gives effect to section 10 (2)(a) of the MPRDA and section 9 of the Constitution and as a result its objectives are similar to those of the MPRDA: (1) to promote equitable access to the nation's mineral resources for all the people of South Africa; (2) to expand opportunities for historically disadvantaged South Africans (HDSAs) to benefit from exploitation of the country's mineral resources; (3) to promote human resources development of HDSAs; (4) to promote employment and advancement of socio-economic welfare of mining communities and major labour sending areas; (5) to promote beneficiation of the country's minerals; and (6) to promote sustainable development and growth of the mining industry (RSA, 2002; RSA, 2010; Rogerson, 2011; Tapula, 2012).

The Amended Mining Charter (RSA, 2010) sets specific targets for the industry in terms of ownership, procurement and enterprise development, beneficiation, employment equity, human resource development, mine community development, housing and living conditions, sustainable development and growth of the mining industry, and reporting/compliance. These targets represent new thinking and adjustment on the targets initially set in the Mining Charter of 2002 e.g. the black ownership target increased from 24% in the 2002 Charter to 26% in the 2010 Charter (RSA, 2010; Tapula, 2012). However, Tapula (2012) raises some concerns with the Amended Charter including the fact that the Charter threatens the economic viability of mining companies since their assets base will be required to fund the set targets in addition to making mandatory payments to BEE shareholders. The Amended Mining Charter (RSA, 2010) seeks to ensure sustainable growth and transformation of the mining industry and to facilitate achievement of the objectives of the MPRDA.

4.3.4 Sustainable development and mining

The DMR launched the Sustainable Development through Mining programme in 2005 which serves as a sustainable development strategy for the mining sector in South Africa (Rogerson, 2011). The Sustainable Development Strategy discussion document of 2009 requires that SLPs of mining companies be aligned with the municipal IDPs and LED plans. The discussion document further identifies challenges in the mining industry which must be addressed by the Sustainable Development Strategy. These challenges include the following: (1) the mining industry attracts labour from remote rural areas, resulting in establishment of informal settlements in mining towns and adjacent areas; (2) the mining environment creates negative social and health impacts in the communities such as HIV and AIDS which are exacerbated by single sex living arrangements; (3) mining has not contributed significantly towards development of labour migratory areas; (4) land degradation and water and air pollution due to mining activities; (5) mining has not contributed significantly towards economic development and growth in rural areas; and (6) municipalities in mining-dependent areas are largely under-resourced and lack capacity (Rogerson, 2011).

Furthermore, the discussion document insists that mining companies should deepen their role in economic development and socio-economic upliftment of the communities where they operate. In this way the mining sector would contribute towards achieving the vision of the MPRDA of creating sustainable, resilient communities. Some of the activities which the mining companies could implement in the communities to achieve this vision include entrepreneurship development, infrastructure development, skills development, and resources support. Such initiatives would empower communities and serve as a basis for local economic development prior to and after mine closure. The discussion document emphasizes the importance of creating partnerships and communication networks to promote good governance and to assist government to fulfil its mandate (Rogerson, 2011). Some of the activities required to achieve good governance include “ensuring transparency and availability of information, the maintenance of democratic and inclusive communication channels, the implementation of cooperative governance, support for partnerships among government departments, industry, and civil society,

and encouraging multi-stakeholder integrated local level planning” (Rogerson, 2011:78).

4.4 MINING AND COMMUNITY DEVELOPMENT

Mining is one of the resilient industries in that despite the global economic crisis and reduced commodity prices, mining companies still continued to look for potential mineral reserves to exploit (Kemp, 2009; Rogerson, 2011). Most of the remote areas where mines seek to exploit mineral reserves are rural and home to poor, indigenes and vulnerable people. Mining operations in these locations often impact in one way or another on the surrounding or local communities. Hence, most of these mining companies engage in community development initiatives aimed at developing and providing support to affected and impacted communities. Community development and participation is an integral part of sustainable development and the corporate social responsibility (CSR) framework of most mining companies (Kemp, 2009; Rogerson, 2011).

The goals of community development initiatives include poverty reduction, human development, social justice, equity, and inclusion. Recognition of the importance of community development by mining companies is illustrated by institutionalization of this concept as seen in the appointment of specialist practitioners by mines for community development work at all organizational levels including operations, policy, project and programme levels. Further evidence of such recognition is the increased focus on education and capacity-building of community development practitioners in mining.

Dual goals of commercialization and development by mining companies seem to be incompatible. Some perspectives emphasize the business case and benefits of corporate contributions to economic and human development. Such views are further supported by multilateral organisations such as the United Nations and the World Bank which affirm the potential for CSR to address poverty. On the other hand, critics perceive CSR as a public relations exercise undertaken by mining companies as a form of insurance against business disruption and reputational

image and to avoid mandatory regulation, rather than a genuine effort to facilitate development, empower the poor and to reduce poverty (Kemp, 2009).

Mining investment contributes to accelerated economic growth, poverty reduction, and engagement in the global economy – developments which are particularly critical for developing countries. However, critics see CSR as an inadequate development response particularly because “it prioritizes economic growth and corporate profit over the interests of the poor and the marginalised” (Kemp, 2009:199). The mining industry on the other hand sees CSR and mining as a win-win situation and considers mining as a critical source of investment for economic development and peace in poor countries. Some of the benefits accruing due to mining include rapid development, job creation, capital investment and inflows, in-migration and resettlement.

However, as indicated earlier, mining development also has a negative impact on the local communities and the environment. Other negative impacts of mining development include corruption and inefficiency of CSR programmes of the mining companies. Poor governance, especially at local government level has also been blamed for limiting potential positive development impact of large-scale mining. Kemp (2009) highlights the controversy around the contribution of mining to community development by referring to the ‘resource curse’ theories which focus on revenue transparency, distribution of benefits from national to local government level, and disputes about impacts on local communities.

Further, the controversy around mining reflects the complex political, social, economic and physical conditions within which mining operates as well as its non-renewable and short-term nature. Furthermore, mining faces the challenge of contributing to community development and land rehabilitation after mine closure. Other factors influencing mining community development strategies include government policies, legal frameworks, regulations and the corporations’ approach to community participation (Kemp, 2009; Ganne and Lu, 2011; Morgan, 2010; Parhans, 2007; Cahill, 2008).

This discussion raises the question about whether or not mining companies' performance should be judged purely on the grounds of core business impacts and not on their 'voluntary' development contributions or both. Clearly for such large-scale mining operations to take place in developing countries where community development and economic growth are inextricably linked to each other, the role of mining corporations in community development cannot be ignored. As mentioned earlier, such mining operations would have tremendous impact on the local communities.

The positive outcomes of mining corporations' increased involvement in community development initiatives would be of a win-win nature for both the mining companies and the local communities, especially with active participation of local government. Such outcomes include favourable labour and regulatory legislative environment, employment creation, local economic development, economic growth, improved government revenue, socio-economic development, skills development, increased capital investment influx, and increased profitability of mining corporations among others Kemp (2009).

Views among scholars about the impact of community development on mining companies differ as to whether it has positive or negative impact on the performance and profitability of the company or not. Given some of the positive outcomes flowing from such engagement it can be argued that the benefits far exceed the setbacks. The view in support of increased mining corporations' involvement in community development becomes more important and relevant with the increase in the formation of public-private partnerships where all stakeholders, particularly government, business and the public work in collaboration to use and exploit local resources effectively and efficiently for the benefit of all.

The prime example of community development initiatives which have even gone as far as institutionalizing this concept is the important role played by Kumba Iron Ore/ Anglo American American's LED office in many parts of South Africa where the corporation has operations. Community development initiatives and services provided by this institution include SMME development and support, social development projects and contribution to skills development. In that way the mining

company contributes to the development of a prosperous and sustainable community and business environment which is attractive to potential business investors (Kemp, 2009).

4.5 MINING AND ENVIRONMENTALLY SUSTAINABLE DEVELOPMENT

Mining offers tremendous potential for LED in municipalities around the country where mining operations take place. However, such LED benefits deriving from mining can only have long-term impact if done in an environmentally sustainable manner. The increasing presence of China in mining on the African continent warrants careful consideration of environmental impact of mining and its long-term effects. The economic benefits of mining should be balanced by robust and effective environmental practices and legislation. Thus, the government particularly the local government is faced with a mammoth task of ensuring that LED benefits emanating from mining operations do not supersede the potential degradation and harm on the environment which could have devastating effects on LED and socio-economic wellbeing over the long term. This section discusses the impact of mining on the environment and how environmentally sustainable mining development relates to LED.

The discussion on China's global economic expansion and investment strategy provides a lesson for South Africa on potential routes that it could pursue for its own economic expansion and growth which will then trickle down into social development, employment creation and poverty reduction. The country's investment and expansion strategy capitalizes on its strength in the form of manufacturing infrastructure and expertise and tries to feed its high demand for energy and minerals by investing in extractive industries in Africa and other developing countries. It does this by building strong bilateral ties with these countries which include favourable discounted loans in exchange for imports of minerals and oil, among other important sectors. This strategy is not different from that used by the World Trade Organisation (WTO) to facilitate trade between developed and developing countries.

The Non-Agricultural Market Access (NAMA) negotiations held during the Doha Rounds of negotiations promotes the use of WTO's development tools such as the General Agreement on Tariffs and Trade (GATT) and the Special and Differential Treatment (SDT) which are aimed at liberalization of industrial goods (Dube, 2010). The key focus of Chinese expansion and investment strategy in Africa is on key sectors which include power/ energy, transport, telecommunications and water. As a result, the country's footprint in Africa has grown exponentially over the past decade, as seen with the recent China-South Africa and China-Africa forums which are indicative of the country's efforts to cement its presence and ties on the continent.

4.5.1 Agenda 21 and economic development in China

The local government in its role of advancing LED extends beyond mere facilitation of investment in the local economy and driving development initiatives in the locality. The inherent environmental risks associated with mining put local government and LED at the centre of efforts to ensure ecologically sustainable mining approaches. The need to maximise economic growth and LED should not be advanced at the expense of the environment since such action could have far more devastating effects on the environment, economy and population of the locality. This section discusses the concept of Agenda 21 in relation to economic development in China. This study is important given China's increasing expansion and influence in Africa and the increasing need to ensure ecological sustainability while on the other hand municipalities are required to maximise economic growth and job creation. Thus, the need to pursue seemingly opposite objectives of preserving the environment and mining becomes a daunting task. This section therefore seeks to find solutions to the challenges posed by mining in relation to environmental sustainability and local economic development.

The discussion on Agenda 21 and economic development is particularly important and pertinent to the South African mining industry to understand socio-economic implications of managing the mining industry in an ecologically sustainable manner. The study is even more pertinent as the MPRDA of 2002, the South African Mining Charter of 2002 and Amended Mining Charter of 2010 explicitly obligates mining

companies to develop and implement environmental impact management plans as a prerequisite to issuing mining rights or permits (MPRDA, 2002; RSA, 2002; Rogerson, 2011).

Further, Agenda 21 is important for Africa as a continent given increased Chinese investment in the continent, particularly in relation to the superpower's track record of poor environmental standards, protection of human rights and labour practices. China's involvement in Africa is often negatively described by using such phrases as "China's scramble for Africa" and "China's re-colonialization of Africa" (Mail and Guardian, 2013). China's growing demand for minerals and energy sources is spurred by its exponential growth and development and Africa represents a convenient source of these resources. Environmental management has taken priority in the South African development agenda as seen with the increased focus on developing and implementing alternative forms of energy i.e. renewable energy such as hydro, wind and solar energy all in an effort to protect and preserve the environment from the hazardous effects of fossil fuels and negative impacts of extractive industries such as mining, including mining for oil.

Large investments are required to manage industrial development projects in an ecologically sustainable manner. But also, there lies an opportunity in such industries as renewable energy for job creation and economic development over and above environmental protection. South Africa is beginning to follow in the steps of developed countries such as Germany and France in the development of renewable energy projects and is taking a lead in both wind and solar energy projects on the continent. The country's climatic conditions and vast tracks of open land are favourable for implementing these renewable energy projects. A detailed discussion on the two policies is provided in the preceding sections of this chapter. In 1992 the United Nations Conference on Environment and Development produced a policy document called Agenda 21.

Harris and Udagawa (2004) conducted a study to illustrate the extent to which China was successful in incorporating the objectives of this policy in its economic development policies and practice given its enormous energy consumption, especially its use of coal (Harris and Udagawa, 2004). China's energy policies,

particularly on the use of coal have shifted its economic development towards environmentally sustainable approaches. The Agenda 21 policy and other international environmental undertakings have urged China to shift its policies towards environmental sustainability. Yet, these ‘soft’ international agreements are not adequate to achieve the desired environmental outcomes. The efficacy and impact of these energy policies and environmental agreements are severely hampered by various national factors such as bureaucratic infighting, disagreements between national and provincial governments, and corruption. The efficacy of existing environmental policies in achieving sustainable environmental development is further challenged by the central role played by economic growth in achieving development goals. Thus, current energy generation and consumption approaches used to drive economic growth will likely continue for the foreseeable future despite being environmentally unsustainable. This trend will continue in countries like China where environmental decline due to economic growth demands far exceeds sustainable development (Harris and Udagawa, 2004).

4.5.2 China’s environmental footprint in Africa

China’s increased economic activity in Africa is coupled to its growing environmental footprint in the extractive industries. Its strategy in Africa is to extract mineral and oil resources in traditionally inaccessible and ecologically fragile ecosystems such as protected ecological areas and natural reserves. It does this by targeting countries with weak governance systems, a confirmation of the country’s record of poor environmental protection standards and human rights violations relating to its labour practices. However, recently the country has committed to addressing the environmental impacts of its projects by issuing guidelines on the impacts of its overseas investments.

Bosshard (2008) argues that such commitment is not sufficient and that China needs to strengthen these guidelines further. China’s investment in Africa is seen as an opportunity for job creation and economic development. China’s strategy in Africa is to overtake Europe and the US as the biggest market for Africa’s natural resources by accessing those resources that have not been exploited by other major markets.

Western markets have not exploited these resources because they considered them to be insignificant in size, geographically remote to exploit, or politically risky. The risk involved in exploiting these resources requires massive investments in mines, oil exploration, and auxiliary infrastructure such as pipelines, railways, roads, power plants and power transmission lines - a strategy which China has adopted for Africa. A good example of China's integrated investment strategy in Africa is its activities in Sudan where it expanded its operations in 1995 following withdrawal by Western competitors who were accused by the public of complicity in the country's civil war.

China is Sudan's biggest importer of oil which constituted 5% of its oil imports in 2005. China invested, through the China National Petroleum Corporation (CNPC) in a pipeline, an oil refinery, a railroad, and several thermal and hydroelectric power plants such as the Merowe Dam. Similar investment packages are implemented in Angola, Congo Brazzaville, Ethiopia, Gabon, and Zambia (Bosshard, 2008). China's integrated investment strategy and economic expansion in Africa is driven by individual entrepreneurs, large state-owned enterprises, and a large number of companies owned by municipalities and provincial governments. Small enterprises invest in manufacturing and commerce while state-owned enterprises invest in extractive and infrastructure projects.

Government institutions and state-owned enterprises work closely together in integrated investment packages. Bosshard (2008) likens the Chinese integrated investment strategy to financial, political and military support granted to oil and mining operations by the US, French and South African governments. Chinese state-owned enterprises make own investment decisions free from government intervention. However, the Chinese government provides support and incentives to these investments in the form of finance and diplomatic support. The Export-Import Bank of China (China Exim Bank) plays a key role in financing state-owned investment projects in Africa Bosshard (2008).

The China Exim Bank is a classic example of national government support to municipalities and collaboration among various state agencies to drive LED. This strategy of integrated investment packages and expansion boots local business growth and thereby creates a favourable environment for business growth and

investment in localities. Additional support in the form of incentive packages for business and investors is crucial for sustained economic growth and business expansion. Such collaboration (Agranoff, 2005) and support would strategically position South African municipalities as attractive investment destinations and viable business locations with competitive business offerings and investment incentive packages.

4.5.3 The role of China Exim Bank

The Chinese government established the China Exim Bank in 1994 which reports directly to the State Council, to promote exports (Bosshard, 2008). The Minister of Finance and Commerce, the People's Bank of China, and the China Bank Regulatory Commission provide oversight over the activities of the bank, each playing a different oversight role. For example, the People's Bank of China approves the bank's credit plans while the State Council approves buyers' credits of more than \$US 100 million. In addition to its administrative role, the China Exim Bank enjoys relative autonomy in project evaluation and approval process. Future plans by the government are to commercialize the bank, supposedly to reduce the government's role in the bank and to increase its profitability. Some of the roles of the bank include providing export credits to Chinese companies and foreign clients, providing loans to foreign governments for projects in China, offering foreign exchange guarantees and administering the Chinese government's concessional loans to foreign governments (Desta, 2009).

The Bank tries to reduce its trade surplus by financing Chinese imports, particularly of mineral and energy resources. The country's trade surplus is due to its massive manufacturing industry especially of cheap low quality goods targeted at export markets, thus creating a surplus of exports in comparison to its imports. Bosshard (2008:2) refers to China as the 'world factory' because of its reputation as the largest and fastest growing manufacturer in the world. For this reason China has often been accused of the dumping of low quality or sub-standard goods mainly in developing countries. A large chunk of the bank's export credit goes to state-owned enterprises

and large projects and its strategy involves offering strategic overseas investors interest discounts (Bosshard, 2008; Minson, 2008).

China's efforts to improve its international reputation which could also be seen as part of its strategy to access vast mineral and oil reserves in least developed countries (LDCs) include writing off these countries' debts worth \$US1 billion (Minson, 2008). The China Maxim Bank's loans to foreign countries had surpassed that of the World Bank and other export credit agencies by 2007. By June 2007 the bank had approved loans worth more than RMB 100 billion to African countries. The bank had bilateral and business relations with 36 African countries by September 2006 and had funded a total of 259 African projects. Priority projects for the bank's funding strategy included the power sector (40%), general or multiple sector commitments (24%), transport (20%), telecoms (12%), and water projects (4%). The majority of these loans (80%) were concentrated in Angola, Nigeria, Mozambique, Sudan and Zimbabwe (Bosshard, 2008).

Concessional loans offered by the China Exim Bank form an integral part of the country's development assistance programme. When the bank offers soft loans for projects, these projects must be approved by both the Chinese Ministry of Finance and the host country. The bank approved 78 concessional loans between 2001 and 2005. The number of framework agreements regarding concessional loans that were signed between China and African countries reached 27 by November 2006. China made a commitment at the 2006 Forum on China-Africa Corporation held in Beijing to provide concessional or preferential loans worth \$US3 billion and preferential buyers' credit worth \$US 2 billion to African countries over the next three years. This forms part of China's strategy of expanding its economic presence in Africa.

This commitment was followed by another in 2007 where the China Exim Bank pledged to commit nearly \$20US billion for loans to Africa over the next three years. This massive investment in Africa far exceeds that of the World Bank which approved projects worth \$US4.8 billion in 2006. Preferential market access packages offered by China to LDCs in Africa include elimination of export tariffs on products from countries that have entered into formal diplomatic agreements with the mainland (Minson, 2008). China's integrated trade and investment strategy in Africa

involves a multiple of Chinese institutions which include the China Development Bank which in 2007 “announced the creation of the China-Africa Development Fund to support Chinese equity investments in African infrastructure, agricultural and manufacturing projects” (Bosshard, 2008:2).

The Chinese strategy of investment and building strategic bilateral ties with other countries in order to promote and drive its economic growth should serve as a guide for South Africa which is the largest economy on the African continent to strengthen and accelerate its growth strategy. Inter-trade among African countries as compared to country trade with overseas countries is relatively low. This gap is an opportunity for a country like South Africa to harness and exploit the potential that exists on the continent for its economic growth and development. Key strategic relationships with other African countries in trade and commerce should be developed and strengthened to maximise economic growth opportunities linked to globalization, slow global economic growth and relative stability on the African continent.

The initiatives taken by regional economic blocks such as SADC and ECOWAS among others through NEPAD must be strengthened to increase inter-trade among blocks and the countries on the continent. In addition, existing challenges such as poor governance and infrastructure, low levels of skills and political instability need to be addressed at all levels i.e. country, regional and continental levels. However, it remains the responsibility of leading economies on the continent such as South Africa, Kenya, Egypt and Nigeria to drive this cooperation. The potential that lies in promoting regional and intra-continental cooperation far exceeds the economic benefits derived from individual country-to-country trade between African countries and overseas markets.

Establishing linkages among domestic markets is key in deriving maximum benefit from the economic potential that is embedded in the African countries’ mineral and oil resources to drive economic growth and prosperity for its people. That linkage to domestic economies involves contribution by mining companies to local economic development by sourcing services, goods, supplies and other materials from local businesses. The benefit from such local economic linkages would trickle down into

the surrounding communities and have a multiplier effect on national economies (De Kock, 2012).

The 2012 South African Mining Indaba emphasized the importance of African governments and policy makers in designing mining and mineral extraction policy frameworks that entrench LED in investment deals with multinational corporations (MNCs). The significance of the mining and mineral resources extractive industry in Africa is illustrated by the fact that mining accounts for nearly 50% of African exports, and together with oil for 75% of total exports. It is also important for African governments to develop strategies to reinvest revenues and rents derived from the resources extractive industry to develop their infrastructure, human capital and manufacturing sectors (De Kock, 2012).

China is the main driver of global economic growth as seen with the 2011 figures for global commodity demand where it accounted for two thirds of this demand. Africa's projected economic growth of 5.5% which is driven mainly by extractive industries (mining, oil, and gas) must take cognisance of the fact that mineral resources are not unlimited, thus these emerging economies must find ways for resource revenues and rents to stimulate other sectors of their economies to ensure a lasting development impact (De Kock, 2012).

4.5.4 Environmental impacts of China's expansion in Africa

Strong economic growth in Africa is largely due to the continent's rapidly growing economic ties with China. China's rise as the largest and fastest growing economy in the developing world is relevant to African countries' economic growth ambitions. Thus China is best positioned to provide the advice and products relevant to the African continent. Massive energy demands of rapidly growing African countries can best be pursued with advice and support from China which is a world leader in renewable energy technologies.

Key areas of opportunity for African countries in relation to China include affordable investments and consumer products as compared to those of Western countries.

Investments from international financial institutions such as the World Bank and the International Monetary Fund (IMF) are often accompanied by dogmatic economic policy conditions based on the Washington Consensus (Minson, 2008) such as Structural Adjustment Programmes (SAPs) and austerity measures, thus making China a preferred and affordable option for African countries because of its concessional loans and investments (Bosshard, 2008; Minson, 2008).

Africa on the other hand is an ideal source of mineral resources to support China's economic growth, particularly in manufacturing. Bosshard (2008) argues that China's strategy in Africa is similar to that adopted by Western countries for many decades (Bosshard, 2008; Minson, 2008). African growth strategy based on mineral extraction for export markets is centralized and often authoritarian, thus leading to a 'resource curse' over the long term. The negative outcomes of such centralised and authoritarian approach limit public participation in decision-making, thus igniting and fuelling internal tensions and conflicts.

The poor and destitute often become the victims of such strategies instead of benefiting from the economic potential of these resources. China's investment and expansion strategy in Africa often has negative impact on the host countries in relation to human rights, environment, governance, local employment and labour conditions, product quality and sustainability of the continent's debt burden. A major concern with China's aggressive investment strategy lies in its concentration and focus on largely ecologically sensitive projects in such sectors as oil and gas exploration, infrastructure (roads, railway, and power transmission lines), mining, hydropower, and timber extraction (Bosshard, 2008).

4.6 SUMMARY OF CHAPTER FOUR

Regulation of the economy is necessary to ensure sustainable economic development and growth. The introduction of the MPRDA in 2004, the Broad-Based Socio-Economic Empowerment Charter (BBSEEC) of 2002 also known as the Mining Charter, and its subsequent amendment in 2010 are important recent regulative and legislative interventions by government to regulate the most important

sector of the economy i.e. the mining industry. The Department of Mineral Resources' mineral beneficiation strategy of 2011 is another important initiative to maximise production and increase revenue generation from the country's mineral wealth.

The South African mining industry is worth \$US294 billion and is the biggest contributor to the country's GDP and foreign exchange earnings. The role played by the mining industry in the growth and development of the country's economy is significant and therefore requires strategic concerted effort to ensure sustainable and equitable growth. The introduction of investor friendly, progressive legislation and formation of public-private partnerships to grow the country's economy and to reduce poverty are some of the key strategies required to harness the potential that lies in the country's vast mineral wealth that is estimated at \$US3.5 trillion.

It comes as no surprise that the ruling ANC has begun to pay particular attention to the mining industry not only for socio-economic development reasons but also for strategic political reasons (ANC, 2013). The recent developments in the mining industry, particularly labour strikes warrant a concerted effort from all stakeholders to ensure stability in the industry which if not correctly managed could spill over negatively into the entire socio-economic and political spectrum of the country. The economic growth and expansion strategy of China in Africa serves as a potential point of reference for South Africa's economic growth ambitions as well as a warning for risks and disadvantages linked to long-term environmental impacts of extractive operations on the country's socio-economic climate.

The positive benefits derived from China's expansion include economic spin-offs resulting from favourable concession loans and export opportunities as well as foreign direct investment (FDI) in the form of Chinese investment in infrastructure, communications, energy, transport and water sectors. On the other hand, China's record of poor environmental standards, protection of human rights and labour practices is a cause for concern as such practices would stand in the way of the South African government's efforts towards income redistribution, sustainable development and in its upholding of the internationally acceptable human rights values and standards. Therefore the South African government should not be

blinded by the potentially lucrative economic benefits of Chinese investment in the country, but it should rather exercise caution to ensure long-term sustainable development and achievement of its socio-economic objectives.

Chapter 5: Strategic considerations: Local government and LED

5.1 INTRODUCTION

Chapter 5 discusses and analyses key strategic considerations regarding local economic development policy and the role played by local governments in achieving LED policy objectives. The role of local government is analysed in terms of key indicators or key success factors required to ensure successful local economic development. These LED indicators range from favourable policies and legislation to strategic business alliances, clusters, networks and multi-stakeholder partnerships which are all aimed at creating a favourable local environment for business growth and improved socio-economic conditions.

The chapter further draws from the discussions and analysis of various factors relating to local government and local economic development as presented in preceding chapters and presents a summary of key strategic considerations derived from these discussions. Further, the chapter seeks to make recommendations about LED best practices which could be adopted in South Africa, opportunities for growth and improvement in the practice and formulation of LED policy, and potential solutions to the challenges faced by local governments in successfully implementing LED policy in South Africa.

The chapter begins by discussing the key strategic planning instruments used by all South African municipalities for coordinated, integrated and aligned planning as prescribed by the South African Constitution and the Municipal Systems Act of 2000. Other aspects pertaining to LED discussed in this chapter include LED strategies, cooperation patterns and knowledge-based economy. The chapter concludes by summarising key strategic considerations regarding LED policy and local government.

5.2 INTEGRATED DEVELOPMENT PLANNING

The IDPs are considered as the master plans for all planning processes of the municipalities in South Africa (Frödin, 2011; Pycroft, 1998). The IDP process has its roots in the British 'Third-Way Model of Governance' which envisages cooperation between government, markets and the civil society in local socio-economic development (Frödin, 2011) and has since the dawn of democracy in South Africa become an integral part of local government strategic planning process i.e. since the introduction of the White Paper on Local Government of 1998 and the Municipal Systems Act of 2000 which provide the legislative basis for formulation of IDPs by municipalities.

The IDP as a planning tool further represents a shift from the rigid, bureaucratic, non-consultative, inflexible, uncoordinated apartheid planning regime which was based on the agenda of separation and control, thus excluding and marginalizing the majority of the population who were predominantly black (Naidoo, 2000). The IDP promotes community participation in local government planning processes, thus enabling locals to contribute towards the shape and content of development and service delivery planning in their locality. The new planning approach as reflected in the IDP process seeks to accelerate and transform services delivery from the apartheid approach which promoted skewed resource allocation in favour of the few and resulted in service delivery backlogs among the majority black marginalized communities (Naidoo, 2000).

The integrative and consultative approach of the IDP is intended to maximise the impact of limited resources through holistic and integrated development planning interventions at local government level (Naidoo, 2000). The integrated approach of IDP seeks to break the artificial boundaries created by apartheid planning and to promote linkages across and between various government structures i.e. national, provincial, and local governments in areas where resources, competencies, infrastructure, and utilities can be shared. This integration is also expected to occur through inter-departmental collaboration and planning across sectoral functions such as regional health services, water resources management, sanitation, energy, and

waste management. This new planning approach is expected to result in structural change regarding the delivery of services at local government level (Naidoo, 2000).

The main role of the IDP process is to ensure alignment of local government planning with both provincial and national government objectives as enshrined in such policy and legislative documents as the South African Constitution, the National Development Plan, the Industrial Policy Action Plan (IPAP), and the Broad Based Black Economic Empowerment policies (Møller, 2007). In turn, municipalities are required to align their plans such as the Local Economic Development plans with those of the IDP and its priorities and objectives. Further, other stakeholders in the municipal sphere such as the private sector are also required to align their plans with the IDPs. For example, the IDP requires private companies operating in the municipal space to develop Social and Labour Plans (SLPs) which must be aligned to both LED plans and IDPs with respect to what they intend to achieve in contributing to the socio-economic wellbeing and development of the localities where they operate.

Frödin (2011) argues that a standard reform model such as IDP cannot be expected to generate similar results across a wide variety of contexts. Standard models or 'best-practice' solutions are often applied in organisational and institutional reforms with the assumption that societies are closed systems in which all variables could be controlled. However, the reality is that societies are diverse and dynamic and hence standard reform models such as IDPs cannot be applied uniformly across various contexts and be expected to have uniform results. IDP is a planning process that coordinates all local development initiatives and is formulated and reviewed through a participatory planning process involving government representatives and non-governmental stakeholders such as business and the public (Frödin, 2011; Cash and Swatuk, 2011).

Public participation is an important feature of the IDP with respect to governance and the developmental local government mandate of municipalities. The principle of developmental local government requires public participation in decision-making processes of a local authority. Public participation promotes institutional democracy and increases the sustainability of development programmes as with IDP (Mac Kay,

2004). Mac Kay (2004) defines integrated development planning as a multi-dimensional planning process involving a variety of stakeholders with the aim of formulating plans which will bring about development in localities.

Development is a process of change in social structures, popular attitude, and national institutions. Further, development is aimed at accelerating economic growth and at reducing inequality, and poverty. Development planning is a participatory process that promotes sustainable growth, equity, and the empowerment of the poor and marginalized communities (Mac Kay, 2004; Naidoo, 2000). Naidoo (2000) emphasizes the importance of IDP as a facet of democratization as enshrined in the Constitution and the Bill of Rights in that it promotes the principles of human rights, public participation in decision-making processes, government accountability, due processes and transparency.

5.2.1 Objectives of Integrated Development Planning

Overall, the IDP process seeks to use limited financial and non-financial resources effectively and efficiently by sharing and coordinating development activities, and preventing wasteful expenditure, thereby preventing duplication and the fragmented provision of services. As a planning tool for municipalities that promotes integration and alignment of planning and implementation processes of other development stakeholders, the IDP is aimed at attracting investments into the locality, increasing employment, speeding up service delivery, strengthening democracy, promoting inter-governmental cooperation, and overcoming the legacy of apartheid. Section 152 of the South African Constitution (RSA, 1996) mandates local government to promote social and economic development in its jurisdiction.

In this way the adoption of the Constitution marked a shift from centralized to decentralized, project-based planning. Such tools as the IDP facilitate integrated and aligned planning among all spheres of government to prevent fragmented planning. The local government framework was launched in 2000 to give effect to the provisions of the Constitution with respect to the responsibilities of local government. The latter framework consists of six metropolitan municipalities (Cape Town, Durban,

Johannesburg, East Rand (now called Ekurhuleni), Pretoria (now called Tshwane), and Port Elizabeth (now called Nelson Mandela Bay), 47 district municipalities which are required to provide coordination and support to the 231 local municipalities under their respective jurisdictions, and 14 district management areas which are administered directly by the district councils.

The new local government framework is governed by two pieces of legislation viz. the Local Government White Paper of 1998 and the Municipal Systems Act of 2000. Frödin (2011) argues that since the South African local government framework is modelled on the British third-way doctrine of governance, the Local Government White Paper bears striking similarities to the British New Labour White Paper of 1998 titled *Modern Local Government: In Touch with the People* and the British Community Strategies which promote engagement and participation of the local civil society, private and voluntary sectors in local planning processes and ensures alignment and consistency with national and regional priorities (Frödin, 2011).

5.2.2 Developmental Local Government

The South African Local Government White Paper commits local government to the principle of developmental local government which promotes working in partnership with the civil society to find sustainable ways to improve the quality of their lives and to address their socio-economic and material needs (Frödin, 2011; Pycroft, 1998; Turok, 2010). The White Paper on Local Government (RSA, 1998:21) defines developmental local government as a “local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives” (RSA, 1998:21). The developmental local government principle requires local government to take a leading role in addressing socio-economic conditions of its citizens and to empower them through development of social capital and by cultivating a sense of common purpose in finding sustainable local solutions.

Partnership with local communities is a more sensible and preferred method to find ways to address local socio-economic challenges in that the communities

themselves are more knowledgeable about the challenges they face and what outcomes they would expect from any development initiatives. This form of grassroots participation increases the relevance and appropriateness of local government interventions by taking cognisance of the particular circumstances and peculiarities of the locality.

The Municipal System Act of 2000 mandates local governments to develop IDPs as strategic plans for development in their respective jurisdictions. Chapter 5 of the Municipal Systems Act of 2000 provides a legislative mandate for municipalities to develop IDPs which will ensure integration and alignment with the planning processes of other municipalities and spheres of government. In this manner, IDPs give effect to the provisions of Chapter 3 of the Constitution regarding cooperative governance which requires all spheres of government to work together and to support each other in their efforts to provide socio-economic services to the communities in their respective jurisdictions. Among other objectives, the IDP must reflect the local economic development aims of the municipality, which will give effect to section 152 (chapter 7) of the Constitution which requires local governments to promote social and economic development of their jurisdictions (RSA, 2000; RSA, 1996; Frödin, 2011).

The South African IDP process is also modelled on the German Technical Corporation (GTZ) model in which the national government determines the broad policy framework and regional and local governments are required to implement these policies by integrating and coordinating government functions in local civil society. As with the British 'joined-up' government model, the GTZ concentrates powers for overall policy design and financial control at the national government level and devolves planning responsibilities to the local government level. It could be said that this model uses a top-down approach in policy design matters and bottom-up approach in policy implementation matters (Harrison, 2006; Frödin, 2011).

5.2.3 Challenges in Integrated Development Planning

The new local government framework is founded on the assumption that the civil and private sectors would agree on the development agenda proposed by the government. Despite creating sufficient space for participation by both civil and private sector in the IDP process, the assumption of domain consensus can be misleading because these sectors do not always necessarily agree with the development agenda of the government. The civic groups are also expected to act as checks on the work of government yet this aspect is often downplayed. The developmental local government concept expects both civil and private sectors to support and work in partnership with local government to help it achieve its development objectives.

This process of partnership by the civil and private sectors with local government is referred to as 'consensual micro-corporatism' (Frödin, 2011). Furthermore, the top-down approach in overall policy design and financial control is insensitive to the objectives and priorities of local governments which are expected to implement national policies regardless of their own priorities. This argument is linked to the issue of unfunded mandates where local governments are required to implement national government priorities despite not being allocated the necessary financial resources.

One of the key features of the local government framework as based on the British third-way doctrine is promotion of a harmonious relationship between the public, private and civil sectors so as to prevent government and market failures. The risks of both government and market failure would increase significantly if both civil and private sectors were to act purely in advancing their interests rather those of the government, i.e. purely social and market interests instead of political interests. Frödin (2011) argues that even though municipalities have relative autonomy in formulating their development plans through IDPs the requirement to develop market-led local economic development plans aligned with national objectives and priorities contradicts the autonomy given to them. This is problematic given the diverse needs and priorities of the municipalities which are not necessarily aligned to those of the national government.

This challenge somehow reduces the eagerness of the local government and its civil and private sector stakeholders to provide the required support that would ensure achievement of national development objectives i.e. the buy-in or incentive from the civil and private sectors is negatively affected as a result. Pycroft (1998) emphasises the contradictions of IDP as a planning tool with regards to the autonomy of local governments in planning in that South African planning policies limit the decentralization efforts and that IDPs weaken the ability of local governments to achieve their development goals.

Frödin (2011) highlights the adoption of context-independent policies and standard development models in settings with different historical and cultural structures as a major shortcoming of the IDP process in that such models do not produce uniform or expected results due to the difference in context. There is a lack of adaptation of these development models to local contexts. In addition local politicians and officials, particularly those of the new political administration, largely lack the practical experience required to deliver on the developmental objectives of such models. Even those officials who are fairly experienced i.e, from the former apartheid administration, experience difficulty in working on a model that is unfamiliar to them Frödin (2011).

5.3 LOCAL ECONOMIC DEVELOPMENT STRATEGIES

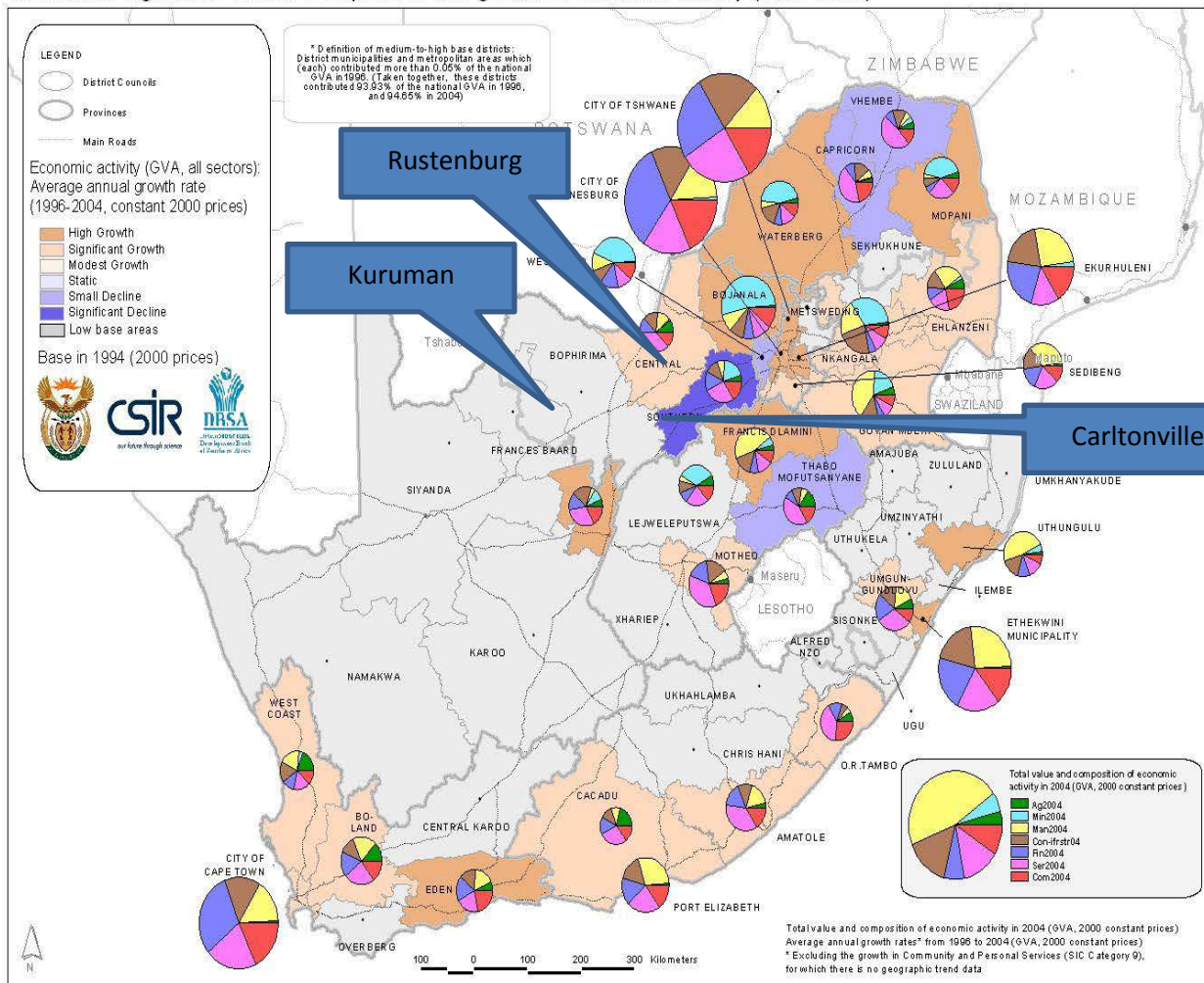
In South Africa the Constitution and the Municipal Systems Act of 2000 require municipalities to develop IDPs containing LED strategies (RSA, 1996; RSA, 2000; Turok, 2010). The increase in de-industrialization in South Africa and many other challenges such as high unemployment rate (25.6%) (Statssa, 2013), sluggish economic growth (2.2%) and economic decline which are further exacerbated by the global recession which started in 2009 are all factors which make local economic development even more important (Turvey, 2006). Local economic development policy seeks to alleviate poverty by stimulating economic growth, expansion of businesses and increasing employment rates.

In addition, the aforementioned challenges are further exacerbated by increasing economic growth in Asian countries, particularly China and India which negatively affect local industries and economies due to the size of their economies and their respective comparative advantages. These comparative advantages include large, flexible and cheap labour markets, low production costs, high levels of skill, advanced technology, vast infrastructure, advanced manufacturing capability, high economic growth and flexible trade policies. It is therefore crucial for local economies to find ways and means to grow internally by attracting investments and growing local businesses.

Some of the key success factors for local economies seeking to grow include skilled workforce, favourable policies and legislation, availability of resources and supporting structures such as business clusters and networks, effective and efficient infrastructure such as roads and telecommunications, and supportive government structures such as favourable tax incentives and local economic development strategies. In South Africa, mining is the biggest contributor to the country's GDP and foreign currency earnings. Mining contributes 5 per cent to the country's GDP, accounts for nearly 60 per cent of export revenue, and employs over half a million people directly and another half a million indirectly (Leon, 2012; Statssa, 2013). The localities where mining operations occur are typical single industry communities and are found throughout South Africa in such towns as Carltonville, Kuruman and Rustenburg (see figures 5.1 and 5.2 below).

Figure 5.1: Medium-to-high base areas: Composition and growth of economic activity (1996-2004)

Medium-to-high base* areas: Composition and growth of economic activity (1996-2004)



Source: CSIR, 2006

Figure 5.1 above depicts low-base areas whose contribution to the net economic activity of the country is relatively low. Carltonville, Kuruman and Rustenburg as discussed above are single industry areas as well as typical low-base areas. The CSIR defines low-base districts as districts municipalities which each contributed less than 0.05 Gross Value Added (GVA) (economic activity) in 1996 (CSIR, 1996).

These small resource towns are usually found on the periphery in the hinterlands, thus raising concerns about their viability and sustainability. A major gap usually identified in local economic development initiatives of these small towns is with respect to education and skills development particularly because most employment in the mining industries requires low levels of education and skills, thus rendering the future of both localities and employees uncertain beyond mining operations. Branson and Leibbrandt (2013) argue that higher levels of education are strongly rewarded in South Africa and that the prospect for employment increases with increasing levels of education, particularly tertiary education qualifications. This trend highlights the importance of education and skills development in local economic development initiatives, particularly in reducing unemployment.

The emergence and growth of the new economy brings about rapid changes in business processes and thus requires flexibility and ability to adapt on the part of local governments. One of the key measures necessary to ensure adaptation and flexibility to embrace rapid changes and demands of the new economy is an adequately skilled and educated local population which is a key component of such an economy. Therefore, local governments in South Africa should prioritize education and skills development to ensure adequate supply of human capital to match the demands of the new economy.

Attempts to develop LED strategies in South Africa can be perceived as a means of adjusting to changes and challenges brought about by the new economy (Turvey, 2006; Arnal, Ok, and Torres, 2001). The new economy emerged in the 1980s through restructuring of labour markets and production systems, economic restructuring, diversified economies, knowledge-based industries, high technology, flexible labour market, new labour practices, global competition and rapid changes in the global economy (Turvey, 2006). LED is characterized by bottom-up development and local initiative approaches for community planning and programme development. Key objectives of LED plans include expanding the revenue base of localities, exploiting local resources, improving delivery of public social services, and promoting entrepreneurship, innovation and grassroots participation (Turvey, 2006).

5.4 COLLABORATION FOR LOCAL ECONOMIC DEVELOPMENT

Changes in global economic trends and climate have led to increased cooperation and formation of collaborative networks. These networks are aimed at mitigating the negative effects of deindustrialization and at increased global competition which have resulted in high levels of unemployment and increased local government involvement in local economies. Most of these collaborative networks take the form of public-private partnerships where both the public and private sectors collaborate to improve local economic conditions.

Further, these changes and developments have led to changes in regional policies with local government playing a leading role in formulating legislation and policies that are favourable for local economic development (Engstrand and Åhlander, 2008). South Africa can learn and borrow from local economic development strategies employed by developed countries in the west such as Sweden where collaboration has become formalized in the form of networks, clusters, triple helix models, partnerships, social capital, learning clusters and innovative systems.

Formalization of collaboration requires the introduction of innovative policies which will encourage collaboration among various sectors of the local economy, particularly the private and public sectors. The passing of the Municipal Systems Act of 2000 which introduced the concept of IDP and LED was the beginning of increased devolution of powers and responsibilities to local governments to improve service delivery and local economic growth. However, these developments in South Africa were nearly two decades late compared to similar developments in developed countries such as Sweden which introduced such policy and structural changes in the 1980s. Sweden developed innovative regional and local policies in the 1990s which promoted formation of clusters and innovation systems.

This was achieved through the establishment of economic development agencies such as Vinnova (the Swedish Agency for Innovation Systems) and Nutek (the Swedish Business Development Agency). Similarly, Malaysia put measures in place in the 1990s to develop 'infostructure' (an infostructure is the layout of information in a manner such that it can be navigated) and infrastructure that would facilitate and

support the transition from the production-based to the knowledge-based economy. This was achieved by establishing economic development agencies such as the Multimedia Super Corridor (MSC) and the Multimedia Development Corporation (MDC) that would nurture innovative and creative economic activities in the country. Further, these development agencies were expected to serve as one-stop agencies which coordinate research and development, network, and telecommunication services of the new economy (Cheng, Hossain, and Guo, 2009).

In South Africa similar local economic development agencies such as the National Empowerment Fund (NEF), Wesgro (the Western Cape Investment Promotion Agency) and GGDA (Gauteng Growth and Development Agency) have been established as a means to promote local economic growth through formation of collaborative networks. An example of a successful cluster model in Sweden developed by Nutek is the Telecom City network in the city of Karlskrona. This model encourages local authorities to form regional growth agreements (RGAs) in addition to clusters and innovation systems to develop locally designed solutions to their challenges and problems. This model further emphasizes the important role of universities as growth engines of local economies in forming a triple helix model as another form of collaborative network among local economic sectors (Engstrand and Åhlander, 2008; Sporer, 2004).

Big and small firms are forming collaborative partnerships along the triple helix model as a means of acquiring intellectual capital such as patents (Revilla, Sarkis, and Modegro, 2003). In line with the subsidiarity principle (Benz, 1999; Rodden, 2004; Concise Oxford English Dictionary, 2004; Mathews, 1980; Monro, 2001) which advocates that local governments are better suited than national governments to provide public social services that have developmental impact. State involvement in local economic development has declined and local authorities are increasingly building local partnerships as a strategy to grow local economies. With the diminished role for the state and increased role for local government in local development, the Organisation for Economic Cooperation and Development (OECD) and the EU emphasized replacement of traditional hierarchical structures with horizontally organised institutions. The focus in development shifted to forming collaborative partnerships at the local level.

While there is no empirical causal relationship between the number of local partnerships and successful regions, there is however a direct link between increased economic growth and the number of new collaborations and formation of development groups. The number of new local collaborations increased where there is least gross regional product (GRP) growth. In other words, where there is less production and economic growth the formation of new collaborative partnerships is desirable to accelerate and promote this growth.

As with the increased local collaborative partnerships for development, there is no empirical evidence supporting the view that structural fund programmes increase confidence in the local economy thereby increasing local economic development. It is believed that structural fund programmes have more of a temporary effect of enabling the start and short-term survival of new projects. However, in the long-term such local associations may have a positive impact on local economies and improvement of social capital (Engstrand and Åhlander, 2008; Sporer, 2004).

Increased focus on clusters and innovative systems emerged after the publication of Porter's *The Competitive Advantage of Nations* in 1990. Key components of innovative systems include companies' organisations, companies' relations, the public sector, the financial sector's structure, and research and development (R&D) (Lundvall, 1992 in Engstrand and Åhlander, 2008). New thinking around economic development in line with innovative systems is that the state should take an active role i.e. intervention in stimulating learning and innovation in local economies rather than allowing market forces to dictate the direction and pace of local economic development. Increased interest in regional innovative systems in the 1990s and early 2000s led to changes in policy which resulted in the formation of local economic development agencies such as Vinnova in Sweden.

The triple helix concept or model i.e. collaboration between universities, industry, and the state constitutes a key component of innovative systems. In the 1980s the European Union introduced a policy that was aimed at improving its international competitiveness by strengthening the European industry's scientific and technological base. The result of this new policy change was the replacement of the

linear innovation model in favour of a dynamic spiral-shaped triple helix model (Larédo, 1997; Etzkowitz and Leydesdorff, 1997 in Engstrand and Åhlander, 2008).

The triple helix model emphasizes the increased role of universities as institutions which contribute to the country's economic competitiveness rather than as traditional 'ivory towers' merely concerned with the quest for universal knowledge (Engstrand and Åhlander, 2008; Sporer, 2004). This new policy was influenced by increased international economic competition, the end of the Cold War, and the emergence of new models for knowledge-based economic development.

Similarly in South Africa, universities are increasingly playing an active role in improving economic competitiveness of their localities as seen with the differentiation and transformation that has occurred among and within these institutions. The schools of business in particular such as the University of Cape Town's Graduate School of Business (GSB), the University of Stellenbosch's School of Business (USB), and the University of Pretoria's Gordon Institute of Business (GIBS) have become more differentiated and involved in devising winning economic models and strategies for industries and local businesses. The latter are increasingly forming collaborative partnerships with both industry and business to increase levels of skill and development of effective local economic development strategies in a model similar to the triple helix model (GIBS, 2013; USB, 2013).

The focus of universities in South Africa has since the 2000s shifted from mere knowledge and academic dominance to contributing to finding practical economic solutions to local economic development and to increasing the competitiveness of localities as knowledge-based economies. However, it is also important for these institutions, in partnership with both business and the public sector, to develop a competitive advantage that will see the cities and the country as a whole playing a leading role in the international economic arena, particularly given the advantageous geographic location of the country and its mineral resource endowments and vast land and maritime resources.

Leading local economies in such cities as Johannesburg and Cape Town must be replicated in other smaller cities to ensure even and increased economic growth

throughout the country. Distribution of economic activity in South Africa is uneven (Harmse, Blaauw, and Schenck, 2009), with higher concentrations in formerly White areas and less concentration in formerly Black areas, particularly the former homeland areas. This is a reflection of the legacy of the former apartheid government's spatial planning process based on segregation and control which located Black and other non-White racial groups on the peripheries of the cities and centres of commerce.

High levels of unemployment in a geographical area is linked to low gross domestic product per capita, meaning that in areas where unemployment is high, poverty is also relatively low (Harmse, Blaauw, and Schenck, 2009). This implies that people generally migrate to bigger cities and urban areas in search of employment opportunities, thus resulting in high unemployment levels in these areas. Some of the benefits of increased public, industry, and university collaborative partnerships include alignment of policies and strategies, transfer of skills and sharing of knowledge, improved efficiency, and reduction of wastage.

Such triple helix models have become common in South Africa through collaborations between industry, universities and government known as Public-Private Partnerships (PPPs). The triple helix model involves interplay between universities, public sector, and industry (private sector) to promote collaboration in research, policy, and business respectively which is intended to create favourable conditions for sustainable growth. Such interplay will increase the university's interaction and collaboration with communities and enable them to disseminate knowledge to these communities (Vinnova, 2002:7 in Engstrand and Åhlander, 2008).

5.5 COOPERATION PATTERNS

China is a good example of a country which has identified an industry in which it seeks to be a global leader. The Chinese government has focussed on developing high-tech industries as part of its strategy of establishing a knowledge-intensive economy. This goal is enabled by cooperation among the state, universities and

innovative industries. The role of the state in this process is to support government-funded research and development (R&D) programmes, to increase expenditure on R&D, and to facilitate technology dissemination (Liefner and Zeng, 2008).

However, this is a bold ambition and a tremendous challenge given that the Chinese science sector was based on a planned system led by government command directive and now has to transition to a market-led economic system that is prepared to serve enterprises. Other forms of change required to transform the Chinese economy to a knowledge-intensive economy include shifting from low-cost, labour intensive production methods to high-tech and innovative methods which will increase its competitiveness. China managed to make strides in transforming its economy in two decades through technological upgrades. It achieved this by initially importing embodied technology in the 1980s which it then copied and reverse engineered. In the 1990s China built its technological capacity by insisting on knowledge transfer by multinational corporations importing these technologies to local Chinese firms and as such technology imports were more efficient for China. China then built on the transferred knowledge to improve and advance its technology, which in recent years has made tremendous progress.

Liefner and Zeng (2008) argue that the success of a firm in technology upgrading, innovation, or producing high-tech goods depends on both internal and external factors. Internal factors relate to the capacity of a firm in terms of its technological capabilities which are determined by its R&D efforts and qualifications of its employees i.e. its human capital. R&D is responsible for generating new knowledge and absorbing knowledge from the external environment. Size, age, and form of ownership are other types of internal factors which affect the firm's success.

The external environmental factors affecting the success of a company include legislation and the informal institutions such the protection of intellectual rights, which form the basis of a firm's decision regarding technological upgrading. Another factor required for successful technological upgrading is continuous exchange of information and knowledge with partners. Strong and productive innovative linkages are required for strong inflows of new ideas into Chinese firms to grow its high-tech industry. However, there are sectoral and regional improvements where strong and

productive linkages are found in Chinese high-tech industries. A broad spectrum of industries in a region is favourable for establishing local collaborative partnerships.

Shanghai and Beijing are two examples of Chinese cities which have taken a leading role in establishing themselves as high-tech industry hubs. The two cities' strengths and weaknesses are determined in terms of the number or extent of foreign direct investment (FDI) inflow, the presence of foreign-invested enterprises (FIEs), their trade relations with foreign enterprises (FE), local universities, and public R&D institutions (Liefner and Zeng, 2008). However, as Sampson (2004) posits, cooperation and formation of alliances in R&D is often challenging given the difficulties in knowledge sharing between partners and protection of property rights. The risk of unintended knowledge transfer or leakage is reduced when the knowledge bases of partners are different. Yet, the need for enhanced communication and knowledge-sharing mechanisms remains critical for effective cooperation between partners in R&D (Sampson, 2004).

It is not surprising that in South Africa, even towns and regions that are well-endowed with mineral resources and other natural resources are economically underdeveloped due to lack of collaborative partnerships in these localities. The main challenge for these areas is the lack of a key component required to form collaborative partnerships along the triple helix model i.e. the universities and other types of institutions of higher learning which are the main sources and drivers of knowledge and R&D. Subsequently, the lack of collaborative partnerships, R&D and new knowledge in these localities is the main stumbling block in the way of local economic development. Examples of such towns in South Africa are the mining towns of Rustenburg, Kimberly and Kuruman which for many years relied on mineral extractive industries for economic survival and yet have not made any major socio-economic advancement.

In all the aforementioned towns there are no established universities and public R&D centres which would provide the necessary information and knowledge required for technological upgrades and for strengthening the competitiveness of localities and firms as well as training and development of human capital. As a result most of the minerals extracted from these towns are exported in a raw form to overseas markets

for processing and beneficiation. Universities and the building of collaborative partnerships would create favourable conditions such as high-tech industries and highly skilled employees for value addition to extracted minerals which would then improve the revenue earned from local production and thus increase economic growth in these localities.

5.6 KNOWLEDGE-BASED ECONOMY

Economic developments throughout the world as a result of globalization; also known as open economy and increased competition are driving countries, localities and businesses to find innovative ways of growing their economies and to improve the socio-economic conditions of their localities. The transition from the era of industrialization to post-industrialization; now known as information societies has placed knowledge generation and sharing at the forefront of the quest for increased competitiveness and economic growth (Sporer, 2004; Nyiri, 2002; Cheng, Hossain, and Guo, 2009). The concept of an information society or economy is based on the widespread expansion, importance and increased application of information technology in many sectors of the economy and society.

The change from industrialization to de-industrialization is characterized by a change in basic production structure from industry to the tertiary sector by a process of de-industrialization. An economy is perceived to be entering a post-industrial stage when employment in the services sector exceeds employment in the industrial sector. In this system of transition from industrialization to post-industrialization, “knowledge replaces capital, innovation replaces tradition, and ideas replace manual work as the main sources of power and economic growth” (Sporer, 2004:40). This new economy characterised by increased collaboration, innovation, and research and development (R&D) is referred to as a knowledge-based economy.

The importance of R&D in building the knowledge-based assets of a locality is demonstrated by countries like the USA, Germany, France, Japan and the UK which in 2002 collectively accounted for 85% of world investment in R&D (Nyiri, 2002). Other developing countries especially in Southeast Asia such as Malaysia are also

positioning themselves to adapt to the new economy. Malaysia emphasized its commitment to promote the knowledge-based economy agenda by publishing the *Knowledge-based Economy Master Plan* in 2002. It also published the *Knowledge Content in Key Economic Sectors in Malaysia* report in 2005 which identifies key knowledge-intensive economic sectors in the country (Cheng, Hossain, and Guo, 2009:254-255). In the knowledge-based economy knowledge replaced capital as a source of power and economic growth in the transition from industrialization to a post-industrialization period, the same as when capital replaced land in the transition from pre-industrial to the industrial period (Sporer, 2004).

The knowledge-based economy is further characterised by increased services sectors of the economy and reduced capital-intensive sectors. This implies that more people with high levels of education and qualifications are now required to drive the new economy instead of capital. It is therefore crucial for localities to embrace and adapt to these new developments to position themselves favourably to deal effectively with these changes in dynamics of the economy. The importance and growth of knowledge-based economies is illustrated by the increase in exports of knowledge-based services which has grown by 10-12% annually since 2003 (Styles, Patterson, and La, 2005; Yoon, 2004).

Characteristics unique to knowledge-based firms include credence properties, variability, heterogeneity, perishability, high customization, complexity, risk and uncertainty, high value addition, intangibility, and inseparability. Further, knowledge-based industries are relatively intensive in their inputs of technology and human capital. Thus, knowledge-based services are “products that have a significant intangible component” (Styles, Patterson, and La, 2005:105). The knowledge-based services sector includes legal services, engineering consulting, project management, architectural consulting, business services, and information technology training services. Intellectual property constitutes the intangible assets of knowledge-based firms (Styles, Patterson, and La, 2005).

A firm’s knowledge i.e. its intellectual capital is critical for its performance and competitive advantage in the market (Bach, Judge, and Dean, 2008). Knowledge-based economies rely on effective and strong R&D facilities; usually through

universities which work in collaboration with other sectors of the society i.e. both the public and private sectors. However, an increasing number of businesses throughout the world are now establishing their own R&D facilities to generate new ideas and to absorb external business knowledge and developments which are essential for their business survival and continued striving for differentiation and improved competitiveness. The triangle of collaboration among universities, business and government formed in an effort to increase economic competitiveness through knowledge acquisition and transfer represents the triple helix model used in many countries throughout the world to increase collaboration and to promote innovation in local economic development (Sporer, 2004).

One of the main goals of local economic development is to increase employment. Changes in the labour market due to a shift towards a knowledge-based economy should urge local governments to prioritise skills development and education to keep pace with these changes. A knowledge-based economy requires a flexible, highly skilled workforce to remain competitive. The most developed countries have experienced an increase in the level of skill requirements for employment. Higher levels of skill and education are now required for employment in most sectors of the economy and short course qualifications are no longer favourable for employment.

It is therefore important for local governments in partnership with other stakeholders including business and universities to focus on education and skills development to support growth needs of various sectors of the economy. Further, a developing trend in the labour market is towards temporary, casual work and increased loss of job security. This trend is particularly important for mineral rich countries like South Africa where the mining industry constitutes the biggest private sector employer. The challenge in this sector is the high levels of low skill or unskilled labour, also known as manual labour. It therefore implies that a country like South Africa lags far behind many developed and developing countries in terms of shifting its economy towards a knowledge-based economy away from a capital and labour-intensive economy.

Labour-intensive approaches are often associated with cheap labour and poor labour practices, thus bordering on issues of human rights violations and sub-standard socio-economic conditions. This is a worrying concern and therefore should

be prioritised by government to adapt and catch up with globalization and global trends of growing emphasis on skills development and increased knowledge building. Education and skills development are key requirements for building a knowledge-based economy that will strengthen a country's competitiveness and economic growth potential. A good example of potential threats and of the economically detrimental impact of not prioritizing skills development and building a strong and educated labour force, is the recent retrenchments in the mining sector as a result of declining commodity prices and labour wage strikes which could cripple the economy.

The recent labour wage strikes in the manufacturing sector alone are estimated to cost the country in excess of R6 billion a month in foreign earnings. These strikes are soon expected to spread to the mining sector which is the biggest contributor to the country's GDP. This situation will have a knock on effect on the government's ability to raise revenue for its service delivery obligations (*Sunday Times*, 2014; *TimesLive*, 2014; *Mail & Guardian* 2014). Another potentially detrimental impact of the retrenchments on the economy is the inability of retrenched mine workers to find new jobs due to the lack of skills and education. South Africa is rated as one of the countries with lowest levels of literacy and numeracy in the world. This is a worrying pattern in the light of global shift and strides to build knowledge-based economies and knowledge-intensive economic sectors to remain economically competitive and sustainable.

The main driver for increased importance of knowledge in the economy together with changes in the labour market is the need for profit maximization in production. These changes require a flexible labour force to drive new capitalist production systems. Life cycles of jobs are becoming shorter and continuous learning has become necessary as result of the knowledge-based economy which requires the workforce to stay up to date with the new developments in the economy. Changes and new developments in the economy generate new knowledge and ideas which must be learned and applied by the workforce, hence the need for continuous learning. Most of the business schools in South Africa have taken heed of the need for continuous learning by developing new academic programmes targeted at workers. These programmes are aimed at enabling these workers to improve their levels of skill and

education and to learn about the latest knowledge and ideas being generated and applied in business. In this manner workers enhance their competitiveness in the workplace and increase their capacity to innovate and add value in their work.

Knowledge-based organisations are increasingly becoming reliant on innovation to create value which is necessary to remain competitive (Anand, Gardner, and Morris, 2007). The need for continuous learning and high levels of skill and education is exemplified by the latest situation in Europe where unemployment among the youth is at a record high level, with some countries such as Greece and Italy experiencing unemployment rates as high as 40 per cent among the youth. This unemployment situation is despite most of these young people having high levels of education. This indicates that for countries like South Africa where education and skill levels among young people are among the lowest in the world, the unemployment situation could get even worse if nothing is done effectively to address skills shortage and poor levels of education in the country.

The level of education of a society is an important element of that society's human capital. Institutions across all sectors of the society and economy are responding to this demand for continuous learning and high levels of education emanating from the knowledge-based economy. Educational institutions, businesses and public sectors have integrated continuous learning as a constituent part of their organisations to enable them to respond to these demands. New knowledge is being generated within both educational institutions and business organisations as well as from their joint operations in keeping with global trends of knowledge-based economies (Sporer, 2004). Information and communication technology (ICT) is the medium through which the knowledge produced by educational institutions and research and development is disseminated. Scientific research generates new knowledge and innovation which are vital in the knowledge economy for the competitiveness and sustainability of all sectors of the society.

Evans, Carter and Koop (1991) in Sporer (2004) define innovation as a process transforming "existing knowledge and ideas (invention) into new or better commercial products that add value for the customer". The triple helix model of collaboration between educational institutions, business and government as exemplified by the

Western market economy (knowledge-based economy) is a relationship that represents the balance between science-push and market-pull factors (Muller and Etzkowitz, 2000 in Sporer, 2004). This market model represents the economic or market forces of demand and supply. The three institutions forming the triple helix model reinforce each other in an effort to promote knowledge production and innovation and to stimulate economic growth (Sporer, 2004).

The global trend in economic growth is towards the increased role of knowledge, training and innovation which are critical for economic growth. Thus, it is crucial for South African local government to shift from focussing on labour-intensive industries and economic sectors to develop knowledge-based economies for the country and its localities to remain competitive and to benefit from global economic growth. An example of a South African development programme that is in direct contrast to the global trends of knowledge-based economies is the government's expanded public works programme which promotes creation of low skills and labour intensive jobs.

Although such a programme has positive socio-economic impact on the society, it is not sustainable; its impact is short-term and it does not promote innovation and competitiveness. Such a programme represents a setback in the country's efforts to develop knowledge-based economic growth. The benefits of prioritizing skills development and education include increased innovation, entrepreneurship and economic growth. Thus, increased emphasis on knowledge creation through research and development and skills development through training and education will reduce unemployment and stimulate economic growth (Sporer, 2004; OECD, 1998). Information and communication technology, international economic integration, also known as globalization are key drivers of the economic growth in knowledge-based economies. In turn, economic growth facilitates job creation through innovation and production of new knowledge (Sporer, 2004; Arnal, Ok, and Torres, 2001).

Martin and Salomon (2003) argue that a firm's propensity to invest and set up a wholly-owned operation in a foreign country, rather than domestically, increases with the increase in its knowledge assets in the foreign market. In other words, the more a firm invests in a foreign market, the more likely it is to set up more operations in

that market because of increased knowledge and experience about the foreign market and the process of establishing new operations in that market. A firm's confidence to exploit its knowledge-based assets in a foreign market increases with more operations being set up in that market. This trend suggests that a destination investment country or locality equally has to be receptive to the potential investments by building its knowledge-based assets so as to complement the potential investor's knowledge-based operations. Thus, building and strengthening a locality's knowledge-based economy is favourable for attracting potential foreign direct investment. Knowledge-based assets can be replicated and shared among several facilities more cost-effectively and more easily than physical or financial assets without incurring full costs with setting up every new operation (Martin and Salomon, 2003:298).

5.7 STRATEGIC CONSIDERATIONS FOR LOCAL GOVERNMENT

Local government in South Africa derives its mandate for social and economic development from the Constitution. This mandate is further entrenched in the White Paper on Local Government of 1998, the Municipal Systems Act 32 of 2000, and the Municipal Planning and Performance Management Regulations of 2001 (DPRU, 2006) which give effect to the provision of the Constitution. The White Paper on Local Government of 1998 defines the functions of local government required to fulfil its developmental mandate. The attributes of local government required to fulfil the developmental mandate include "the ability for long-term planning, to focus key partners on a common agenda, and to mobilise state resources to build productive capabilities" (Turok, 2010).

These attributes of a developmental local government emphasize the importance of integrated planning, alignment with key national objectives, and effective and efficient use of state resources by government structures. State intervention to ensure equitable prosperity in all localities is necessary and the developmental approach provides a shift from a market-led development approach which has proved weak and ineffective as seen with the global economic crisis in western countries which began in 2009. A developmental mandate of government steers

away from a market-led approach and emphasizes an interventionist approach which requires government to play a leading role in improving the socio-economic conditions of the localities.

This approach has been used successfully by East Asian countries which within a relatively short period have made great strides in improving the socio-economic conditions in their countries. LED is one of the five key performance areas (KPAs) assigned to local government which include Municipal Transformation and Organisational Development, Basic Service Delivery, Municipal Financial Viability and Management, and Good Governance and Public Participation (RSA, 2006). The long-term planning attribute expected from local governments is given effect through the IDPs which serve as municipal planning tools for a period of five years. The IDP further gives effect to the integrated approach and efficient utilization of resources attributes of the developmental mandate.

The IDP provides details of key service delivery objectives and strategies of the municipalities which must be aligned with both provincial and national priorities, thus fulfilling the provisions of section 152 of the Constitution which requires integration of efforts and cooperation across all spheres of government and organs of state for a common developmental goal. Further, the IDP provides coordination and integration of all municipal plans to increase efficiency and to prevent fragmented planning and duplication of effort (Turok, 2010; BBC, 2009).

One of the key challenges that a developmental government approach seeks to address is the high unemployment rate in the country. Linked to unemployment is widespread poverty and inequality (Møller, 2007; Leibbrandt, Woolard, Finn, and Argent, 2010) which continue to deprive the majority of the country's population of the opportunity to play an active role in the mainstream economy of the country. South Africa has high levels of poverty and is the most unequal society in the world. Income inequality in South Africa increased drastically between 1993 and 2008 (Leibbrandt, Woolard, Finn, and Argent, 2010:9; Förster, 2000:3). Income poverty has fallen slightly during the same period but remains acutely high among African and Coloured race groups (Leibbrandt, Woolard, Finn, and Argent, 2010). The trend

of declining income poverty in South Africa since 1993 is illustrated in Table 5.1 below.

Table 5.1: Selected indicators of poverty, assuming poverty line of R3 000 per capita per year (in constant 2000 prices)

	1993	2000	2004
Average per capita income in quintile 1	R855	R866	R1 185
Average per capita income in quintile 2	R2 162	R2 086	R2 770
% of population that is poor	40.6	41.3	33.2
Number of poor (million)	16.2	18.5	15.4

Source: Van der Berg et al. (2006) in Leibbrandt, Woolard, Finn, and Argent (2010:18)

Møller (2007) attributes the high unemployment rate in the country to labour legislation such as minimum wage policies which have forced many employers to lay off workers and to replace permanent staff with contract workers in an attempt to reduce their production costs. Trade policy liberalisation along with labour market reforms is necessary to improve equity and efficiency gains in South Africa (Kowalski, Lattimore, Bottini, 2009; OECD, 2009). In 2006 the unemployment rate was 26.7% where two thirds of the young people between the ages of 18 and 35 years were unemployed. There have been attempts by the South African government to relax labour laws with the hope of creating a favourable climate for job creation (Møller, 2007).

In 2013, the South African government passed a Youth Employment Tax Incentive Act, also known as the Youth Subsidy Bill which is expected to encourage employers to provide work for the youth. This is just one of the measures taken by the government to reduce unemployment. However, the labour unions have been strongly against such developments in their effort to protect workers' rights. Local government should be in the forefront of all government efforts to address these challenges. Some of the means through which these challenges can be addressed include increased support for small business development, promotion of self-employment initiatives through entrepreneurship, improved access to education and training, government partnership with other stakeholders, particularly educational institutions and the private sector (OECD, 1998).

Job creation and promotion of a local jurisdiction as an investment destination are two key objectives of local economic development. Thus, local governments in South Africa must dedicate adequate resources and effort to support and promote initiatives that will attract investments, grow existing businesses, and improve levels of education and skills among its population. Therefore, the concept of a triple helix model or public-private partnerships in South Africa is pertinent to ensure collaboration among key stakeholders in the local economy. Entrepreneurship and the capacity to start and grow viable small businesses are inextricably linked to the level of human capital i.e. level of education and skills of a society. A high level of skills and training within communities will increase the level of entrepreneurship in a locality and subsequently reduce unemployment, income inequality and poverty.

Collaborative networks such as the triple helix model and local economic clusters, availability of adequately trained and skilled workforce, favourable policies and legislation, subsidies, tax breaks, land-use incentives and tax-exempt bonds among other forms of investment are key drivers of local economic development because of their potential to facilitate investment and business growth. The local government must endeavour to create a supportive and enabling business environment that is attractive and conducive for business. In this manner, the South African economy will diversify and shift from a narrow base of mining and services industries towards a knowledge-based economy. More emphasis on improved competitiveness and innovation is necessary for diversification and to mitigate risks associated with reliance on a narrow economic sector i.e. a single industry economy. Further, increased competitiveness and innovation result in increased value addition and creation of new products and markets to support the growing needs of the economy.

Global trends in local economic development include increased focus on rural, remote and less developed areas in an effort to build self-reliance among the locals. Formation of development corporations to focus on rural development as part of the government's broader local economic development strategy is a key component of this development strategy. This model entails empowering locals through governments support in the form of access to land and other resources such as funding and training which are vital for sustained economic growth and

entrepreneurship. Development corporations focussing on rural development would be ideal for the South African government which has recently made efforts to accelerate its land reform strategy which has so far been a complete failure. The current development corporations and institutions such as the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA) have not made much progress in empowering rural areas and in changing the economic ownership landscape in these areas.

Partnerships and collaborations are becoming increasingly important in the changing world economy that has become increasingly knowledge-driven and integrated. These partnerships take different forms including triple helix models, local economic clusters and global production networks among others. The benefits deriving from these partnerships among key stakeholders include knowledge sharing and transfer, reciprocity, synergy, increased effectiveness and efficiency, learning, innovation and improved competitiveness. It is therefore crucial for local governments to build stronger and effective networks and partnerships that will afford flexibility and increase productivity, thus driving economic growth. South Africa's natural beauty, heritage and business environment presents a comparative advantage to position itself as a tourist destination. Tourism should thus form an integral component of local economic development strategies. Further, the economic opportunities tied to tourism present an avenue for all levels of business and players to participate and benefit from the tourism industry. The backpacker tourism sector has low entry barriers and has potential to empower poorer, rural communities through business ownership and job creation.

Mining contributes the biggest share to the country's foreign currency earnings and thus has a strategic significance for the country. The mining industry also contributes significantly to a county's employment. A mineral resource beneficiation strategy of the country holds the hope for increased value addition of the country's minerals which will create vast opportunities for employment and increase revenue generation for local authorities. Therefore implementation of this strategy should be linked to other government strategies to increase collaboration, integration, synergy and coordination of effort.

5.8 CONCLUSION

The White Paper on Local Government of 1998 and the Municipal Systems Act of 2000 provide legislative basis for formulation of IDPs and to give effect to the provisions of the Constitution. An integrated development plan is a strategic planning tool that enables municipalities to coordinate, integrate and align all planning in their jurisdictions in order to promote public participation, and to achieve social and economic development goals of poverty reduction, reduction of inequalities, and provision of social public services in an effective and efficient manner. Despite its novel ideals of participatory governance and institutional democracy, the requirement for alignment of IDP with both national and provincial priorities could limit local government autonomy and incentive to provide adequate support for these national priorities in that local government priorities are not necessarily always the same as those of provincial and national governments.

On the other hand the need for vertical alignment of municipal IDPs is necessary to give effect to the Constitutional provision of cooperative government that requires all spheres of government to work in cooperation towards achievement of common goals of socio-economic development, among other objectives. Local economic development strategies are intended to alleviate poverty by stimulating economic growth, expansion of businesses and increasing employment rates. Key objectives of LED strategies include expanding the revenue base of localities, exploiting local resources, improving delivery of public social services, and promoting entrepreneurship, innovation, and grassroots participation.

Increasing competition and globalization are driving governments to form and formalize cooperation with other stakeholders to improve the local economic climate. Cooperation can take various forms including local clusters, triple helix model, social capital, learning clusters, production networks, and public-private partnerships. These formalized cooperative structures promote sharing and transfer of knowledge and information, and technological upgrades in an effort to promote local economic development. Such collaboration is facilitated by establishing local economic development and business development agencies which will provide support to businesses in the locality and by creating a favourable business environment. The

increased use of information and communication technology to drive globalization and competitiveness in business has led to a shift from an industrial phase to the post-industrial phase in the economy, also known as knowledge-based economy. This economy is characterized by increased services sector and less capital intensity. This implies that the new economy requires a more highly skilled and knowledgeable workforce to remain competitive and sustainable. Collaboration between business, universities and local governments is necessary to facilitate generation and dissemination of new business knowledge and skills. Thus, research and development and innovative systems constitute an integral component of a knowledge-based economy.

Local governments should form strategic collaborative partnerships in order to develop the required skills and competencies among its population which are necessary to grow local businesses and to create an attractive business environment for potential investors. This will in turn increase employment and facilitate socio-economic development in a locality. The main attributes of a developmental local government are long-term planning and cooperation with all government agencies, integration, alignment and coordination of all development initiatives, and maximization of the impact in deploying state resources. The IDP provides municipalities with a planning framework to design socio-economic strategies for the localities through a consultative process. LED is one of the main development strategies contained in the IDP which seeks to address poverty, unemployment, and economic development challenges in localities. LED initiatives aimed at attracting investment into a locality, creating employment, and improving socio-economic conditions include a favourable regulatory and legislative framework, a favourable business environment which includes local business clusters and incentives, a highly skilled and competent workforce, and business support structures.

The South African local economy should make a deliberate effort to shift from a narrow-base economy towards a diversified economy based on knowledge-intensive industries. This shift requires emphasis on strengthening the competitiveness and innovative edge of a local economy which will result in increased and efficient production of high value and innovative products and services, and subsequently increased employment and reduction of poverty. One of the main strategies for

creating a supportive and enabling local business climate is the establishment of business corporations and development agencies which will provide the necessary support and capacity to develop and grow local business enterprises. Diversification of local economies with particular focus on key strategic sectors such as mining and tourism is necessary to strengthen a locality's competitive edge, thus creating a broad-based economic growth that will promote equitable socio-economic development and growth.

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APPENDICES

Appendix 1: RESEARCH TIMEFRAME

The layout of the periods and activities which make up the process of completing the present study (research project) is represented in the Gantt chart as shown in figure 1.2 below.

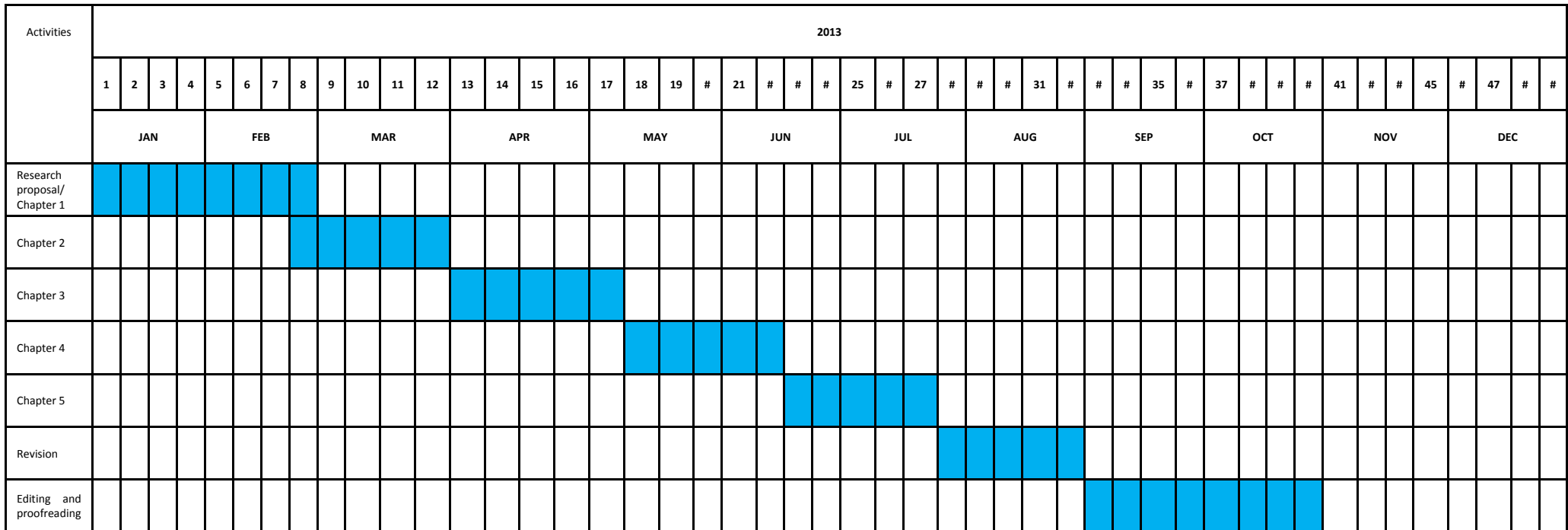


Figure 1.2: Gantt chart: Timeframe for completion of thesis 2013

Source: Author, 2013

Appendix 2: LED INTERVENTIONS

Improving the local business climate	<ul style="list-style-type: none"> • Creation of zones where combined residential and small business use are permitted • Review of procurement procedures to permit informal businesses to access municipal contracts
Grants/rebates to attract inward investment	<ul style="list-style-type: none"> • Subsidised training and skills development of disadvantaged employees of investors
Non-financial support for inward investment	<ul style="list-style-type: none"> • Provision of land, planning rights for investors if employ certain numbers of disadvantaged employees • Support to investors to use their corporate social investment fund in ways relevant to disadvantaged people/informal economy.
Investment in infrastructure and infrastructure-related services	<ul style="list-style-type: none"> • Provision of incubators • Provision of market stands for informal traders • Creation of produce markets • Creation of input supply depots for farmers • Contracts for community-based or SMME construction and maintenance • Support for specific infrastructure to support projects, eg the railway station in Creighton • Planning suitable infrastructure for service delivery in rural areas, eg cellphone payment of electricity bills • Indigent policy to support access of poor people to services

Source: Khanya-aicdd, 2006

Appendix 3: MARKET CONSTRAINTS AND MARKET FAILURE

CATEGORICAL IMPERATIVES	MARKET FAILURE
<p>RELATED AND SUPPORTING BUSINESSES - A group of strong local suppliers and distributors who can contribute to the process of innovation, that reinforce skills in the same industry product using advanced process technologies or strategic marketing channels.</p>	<p>In those regions where universities and research organisations exist, most of the research being conducted are in areas which are serving big firms located in well-off areas, not the local economy.</p>
<p>PROSPERITY CHALLENGE- Small towns, in particular will need to arrest economic decline which has occurred due to decline in the manufacturing sector. Average per capita income has either remained constant or declined. This will require a massive increase – almost a doubling of per capita incomes over the next decade. To be able to achieve this vision requires growth rate in per capita incomes of over 7% .</p>	<p>SKILLS DEVELOPMENT AND ENHANCEMENT- Almost all regions in RSA needs to invest in upgrading skills of the population. The situation is worst in small and former homeland towns, as they have an exaggerated skills deficiency, relative to the current industrial concentration points. Further compounding this problem is the acute 'Brain Drain' problem – graduates tend to leave these areas. Investing in upgrading the skills-base should include both the elimination of illiteracy and a reversal in the trend of skills 'leaking' out of the regions.</p>
<p>GROWTH CHALLENGE -Most of the former homeland regions will needs a quantum leap in their current growth rates. Outputs have to grow at a rate of 7.5%.</p>	<p>SUSTAINABLE JOBS -Regions need to double the number of people employed in secure sectors, defined as those sectors with relative high incomes and sustainable jobs for longer period of time.</p>

Source: DTI, 2006

Appendix 4: BROAD APPROACHES TO REGIONAL DEVELOPMENT

CRITERION	TRADITIONAL APPROACH	CONTEMPORARY APPROACH
CONCEPTUAL BASIS Key factors	Politically motivated - availability of workers	Regional capabilities i.e. innovative milieu, clusters & industrial networks
POLICY CHARACTERISTICS Aims & Objectives	Equity or efficiency Employment creation & increased investment	Geo-spatial equity, efficiency and capabilities Increased Competitiveness & employment creation
KEY INSTRUMENTS	Incentive schemes, business aid & hard infrastructure	Local growth coalitions, regional road maps, business environment & soft infrastructure
POLICY STRUCTURE Spatial focus; Analytical Base	Problem areas Designation indicators & Regional exporting	All regions Regional SWOT analysis
EVALUATION Outcomes	Measurable	Very difficult to measure

Source: DTI, 2006

Appendix 5: PROPOSED LED INTERVENTIONS

INTERVENTION	INCENTIVES
INDUSTRIAL INFRASTRUCTURE INCENTIVES	<ul style="list-style-type: none"> • Social Overhead Capital Fund (Special Economic Zones) <ul style="list-style-type: none"> – Industrial Parks – Logistics Parks – Industrial Estates – Innovation Hubs – Small Towns • The Thematic Fund <ul style="list-style-type: none"> – industrial clustering capacity building fund – <u>industrial development zones</u> strategic support facility (both tax relief and infrastructure support) – business retention and expansion – innovative start-ups support facility • Regional Industrial Development Fund (SDIs, LED)
INDUSTRIAL INCENTIVES	<ul style="list-style-type: none"> • Regional Growth Coalitions • Regional Industrial Road Maps • Geo-spatial mapping • Tax Concessions • Labour concessions • Transportation and Logistics Support • Customs Tariff Protection

Appendix 6: LIST OF LEGISLATION AND LED POLICY DOCUMENTS

- South African Constitution, Act 108 of 1996
- Municipal Systems Act, 1999
- Municipal Structures Act, 2000
- Intergovernmental Relations Act, 2005
- White Paper on Local Government, 1998
- Performance Agreement to fast-track service delivery, 2010
- National LED Framework, 2006
- Policy processes on the system of Provincial and Local Government, 2007
- A beneficiation strategy for the minerals industry of South Africa, 2011
- Amendment of the Broad-Based Socio-Economic Empowerment Charter for the South African Mining and Minerals Industry, 2010
- Employment Equity Act, No. 55, 1998
- Mineral and Petroleum Resources Development Act, 2002
- National Development Plan, 2010
- Prevention and Combating of Corrupt Activities Act No. 12 of 2004
- White Paper on Reconstruction and Development, 2004
- Public Finance Management Act, 1999
- Municipal Finance Management Act, 2003
- White Paper on the Transformation of the Public, 1995

Appendix 7: ETHICAL CLEARANCE LETTER



27 June 2013

Mr MD Dizeko 212562607
Graduate School of Business and Leadership
Westville Campus

Dear Mr Dizeko

Protocol reference number: HSS/0444/013M
Project title: Local Economic Development and Local Government: Strategic considerations

NO- RISK APPROVAL

In response to your application dated 14 March 2013, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted FULL APPROVAL.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number. Please note: Research data should be securely stored in the school/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully


.....
Dr Shonuka Singh (Deputy Chair)
Humanities & Social Science Research Ethics Committee

/pm

cc Supervisor: Dr Stanley Hardman
cc Academic Leader: Dr E Munapo
cc School Admin.: Ms Wendy Clarke

Humanities & Social Sciences Research Ethics Committee
Professor Urmilla Bob (Chair) and Dr Shonuka Singh (Deputy Chair)
Westville Campus, Govan Mbeki Building
Postal Address: Private Bag X54001, Durban, 4000, South Africa
Telephone: +27 (0)31 260 3587/8350/4557 Facsimile: +27 (0)31 260 4609 Email: urmilla@ukzn.ac.za / shonuka@ukzn.ac.za / mohunp@ukzn.ac.za
Website: www.ukzn.ac.za

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