

CHAPTER 1

BACKGROUND STATEMENT AND THE CONTEXT OF THE STUDY

1.1 BACKGROUND STATEMENT

Local Economic Development (LED) in South Africa emerged and evolved as results of many factors, for example, it evolved as results of challenges, which were brought by globalisation (unemployment, poverty, and so forth) and apartheid legacy (which left a huge social inequality). The newly democratically elected government in 1994 introduced a framework document entitled “Reconstruction and Development Program” (RDP), which was used by African National Congress as an election manifesto. The main objective of the document was to redress social inequalities left by the legacy of apartheid. The RDP document advocated growth through development or community development, emphasising a vision of “A Better Life for All” (ANC, 1994). The document also emphasised that institutions should be established to deal with LED.

In order to foster the growth of the local economies, “broadly representative institutions must be established to address the local economic development needs. Their purpose would be to formulate strategies to address job creation and community development...” (ANC, 1994: 83)

However, before the RDP’s stage of implementation was reached, it was replaced by Growth, Employment and Redistribution (GEAR), with an

emphasis on macro-economic stabilisation, and thereof privatisation of public enterprises and outsourcing of service delivery. Unlike the RDP, which advocated for redistribution of resources before growth, GEAR advocates believe that it is more vital to promote economic growth before redistribution, and therefore the country, for example, should put its weight on enticing external investors to open their businesses in the country. However, GEAR policy brought worst results than its intentions. A few years after introduction of GEAR, unemployment rose to 43 %, and many companies retrenched and/or informalised their workers (Steyn, 2006).

As a result, the South African government formulated a plethora of policies and legislations to guide developmental local government initiatives, for example, the Local Economic Development (LED). These legislations and policies include the Municipal Structures Act, White Paper on Local Government, Municipal Systems Act, and Policy guidelines for implementing LED in SA.

Nevertheless, LED has always been implemented even during apartheid era as well as early years of democracy. However, during this era, government's focus was on attracting investors, manufacturing companies in particular, without taking into consideration issues such as poverty alleviation. The only strategies that were dominating were around attracting investors through so-called "smokestack chasing", emphasising tax holidays, free services and other incentives, which were not benefiting the communities (RSA, 2002).

Emanating from these results of failing to promote local economies or employment in the late 1990s and early 2000, studies began to be undertaken with the aim of establishing the extent to which municipalities

can improve local economies. Draft policies started to be put in place; the document entitled “Refocusing on the poor” became the second LED document that came after the LED manual and LED Fund, which was published by the Department of Constitutional Development in 1997. This document introduced a new wave of LED, mandating the state to be at the forefront in terms of pushing back the frontiers of poverty and unemployed; this framework can be described as interventionist in nature. This strategy required a lot of energy from municipalities, both in terms of formulating and implementing successful LED strategies.

Parnell (2004) stated that for municipalities to achieve their economic objectives, they require political commitment to poverty reduction, job creation, and support to small businesses, and the transformation of the institutional arrangements inherited from the apartheid regime. Parnell (2004) further states that municipalities need not only address the needs of the poor, but they also have to be fully prepared in terms of appropriate tools and instruments at their disposal. Building an equitable, sustainable and vibrant local economy becomes a complex process that involves a well-defined meaning of local economic development to ensure that all citizens become beneficiaries. In addition, formulating strategies pertaining to LED does not only require a political commitment, but substantial thought on issues such as investments, municipal financial and administrative systems by municipalities, and other spheres of government with relevant stakeholders (Parnell, 2004).

Later, although it never appeared as a final policy, the “Refocusing on the poor” document was replaced by another document entitled Policy guidelines for implementing Local Economic Development in South Africa. Another draft National policy Framework for Local Economic Development (LED) in South Africa emerged after the policy guidelines. These new thrusts

were perceived to be pro-poor-growth, prioritizing the previously disadvantaged groups or disadvantaged communities, while also deliberating on the concept of competitive advantages, enticing external investors, marketing areas, encouraging community participation, re-skilling people, as well as assisting local communities with relevant information. All these draft policies were at the same time attempting to strengthen, to a greater or lesser extent, the concept of “bottom up approach in planning”, involving the local communities’ participation on issues of LED. This is because of the fact that the apartheid planning was characterized by “top-down” regional development strategies (Rogerson, 1994). The “bottom-up” was perceived as an appropriate platform to promote local economic development in a new dispensation

The most critical institution that can be a leading force in terms of facilitation, coordination and monitoring in South Africa is local government. Local government should make a favourable environment for local economies to grow. Central government gives Municipalities responsibilities to formulate feasible and developmentally orientated strategies to promote LED. There are various strategies or programs that municipalities should promote, for example, marketing, support and retention of SMMEs (Small, medium and micro enterprises), improving business climate, Cooperatives and other programs (RSA, 2005).

However, one of the serious concerns about LED in South Africa is the notion of institutional or municipal capacity to implement LED successfully. Project Consolidate (PC) and the Accelerated and Shared Initiative Growth for South Africa (ASGISA) are the recent strategies designed to intervene in terms of strengthening the economy. “Project Consolidate” was also introduced by the National Department of Local Government (Dplg) to assist municipalities, which do not have adequate capacity to deliver services,

including the promotion of LED. ASGISA is to deal with some of the economic challenges, which are currently confronting the country especially challenges which GEAR caused or failed to address, e.g. poverty reduction, employment creation, sector investment, skills and economic development (Mlambo-Ngcuka, 2006). Among others, ASGISA targeted municipalities in terms of the provision of skills to enhance the municipal capacity.

This research is located within the context of a broad South African LED debate. This study is limited to a discussion of municipal local economic development capacity, with Ekurhuleni Metropolitan municipality as a case study. The rationale (to be discussed in details under problem statement) behind the study is to understand the necessary resources required for municipalities to advance successful, vibrant, robust and inclusive local economic development. Nevertheless, the main objective of this paper is not to emphasize the importance of LED in South Africa or to establish new implementation mechanisms.

1.2 RESEARCH TOPIC

The main topic of this research is “An analysis of Municipal Economic Development Capacity: Case study of Ekurhuleni Metropolitan Municipality”. This topic will attempt to understand the extent to which EMM’s LED unit is adequately equipped to promote LED. The research will also focus on the extent to which EMM’s LED practices and policy are aligned to the draft policy entitled “Policy Guidelines for Implementing Local Economic Development”.

1.3 RATIONALE AND PROBLEM STATEMENT

It should be stated at the outset that the question of municipal capacity with reference to Local Economic Development in South Africa has not largely been studied. The Municipal Demarcation board (2004) published assessment reports on all South African district and local municipalities. The reports were very broad, focusing on all municipal programs. The reports state that South African municipalities are confronted by lack of capacity, particularly in speeding service delivery (e.g. on water, electricity, roads and so forth.).

In terms of LED, there has been widespread failure of various LED projects in the country. Most notably, the results have been very disappointing in terms of implementation. These failures have been attributed to the lack of capacity. Lack of capacity refers to human resource and capital resource constraints in many municipalities in the country (Hindson, 2003).

Moreover, the HSRC (2003: 18) hinted that there are various issues or LED challenges that were uncovered by various authors such as Nel (2001), Hill, and Eising (2002) and Tomlinson (2003), namely:

- The failure rate of initiatives is high;
- In many ventures, particularly in smaller centres, there is only limited private sector involvement;
- What is being achieved is the provision of facilities of a global standard in certain localities versus constrained achievements in the poorer areas;
- The 'politicisation' of development is an issue, where individual interests override the greater common good;

- Projects appear to move through a ‘life-cycle’ which often sees the demise of once-promising endeavours;
- The economic aspects of projects, especially the marketing of products are often neglected in planning and often threaten project sustainability;
- Many regard LED as an ‘unfunded mandate’ i.e. local governments are required to pursue it, but lack the necessary funds and staff;
- There is a clear need for more training, facilitation and funds;
- In Rogerson’s view, ‘...the most distinguishing feature of South African Local Economic Development policy is the new emphasis on a strong pro-poor focus in rhetoric, albeit if not always in practice’ (Rogerson, 2000, p408);
- There is currently inadequate facilitation and support;
- Community-focused programmes are often difficult to sustain, because of high staff turnover, limited resources and capacity.

“Within larger municipalities, a need has been identified for reviews of administrative effectiveness, financial efficiency or social accounting. A range of techniques to measure the impact of government and local authority-sponsored job creation and industrial promotion schemes are yet to be developed” Dti (2006: 48). These failures of many LED projects in various regions of the country informed these reviews. Dti (2006) admits that although LED practitioners have remarkably achieved in number of local projects, especially in terms of promoting urban agricultural initiatives, it is noticeable that these projects often appeared as ‘shoring-up’ strategies, which cannot comprehensively counter local economic calamities.

Generally, most of difficulties encountered in promoting LED initiatives evolve around inadequate LED coordination, lack of funding, inability to link LED to other initiatives, sustainability of LED projects, poor understanding of local economy, and lack of understanding in terms of LED definition. South African municipalities have been mandated to take a leading role as facilitators, coordinators, stimulators and the entrepreneurial developers of the Local economic development (DPLG, 2003) and (RSA, 2005). Moreover, RSA (2005)'s new policy document entitled "Policy guidelines for implementing Local Economic Development in SA" positioned municipalities as leading institutions to implement LED. Therefore, this study is going to unpack institutional challenges encountered by municipalities in implementing this policy, using Ekurhuleni Metropolitan Municipality as case study.

Moreover, there are some of the reasons why the researcher chose EMM as a case study. Ekurhuleni is one of the fastest growing economies in the country. It is an economic hub of Gauteng with 2,5 million residents. More interestingly, poverty and the escalating rate of immigrants and informal settlement are some of the major challenges confronting EMM. Although the economy is speedily growing, it takes what is called "jobless growth", characterized by high rate of economic growth as well as ever-increasing unemployment rate (www.ekurhuleni.com). In other words, there is no correlation between economic growth and unemployment rate

Ekurhuleni is one of the well-established Metropolitan Municipalities, with a potential of attracting more investors, especially in a manufacturing industry. It is close to various opportunities such as rail transport network, freeways, international airport, and so forth. According to Rhodes University et al (2005), EMM's LED Unit has one of the fundamental "LED POLICY AND STRATEGY", which speaks explicitly about its objectives; it is

unapologetically “pro-poor”, seeking to put people first. Arguably, the outcome of this case study may also assist in terms of understanding institutional challenges confronting LED departments in other municipalities.

1.4 AIMS AND OBJECTIVES OF THE STUDY

1.4.1 Aims of the study

The main aim of this study is to assess municipal economic development capacity. It will do this by using Ekurhuleni Metropolitan Municipality’s LED unit as a case study. The assumption is that successful local economic development projects in South Africa require adequately resourced local authorities. Resources refers to either capital (. e.g. financial) as well as human resource (e.g. skills). More importantly, this research aimed at finding out whether this EMM’s LED unit can be able to implement recommendations made in the Policy guidelines for Implementing Local Economic Development in South Africa.

This study is conducted within the context of the municipality as an “institution” to promote LED. Therefore, the analysis of this study is based on the institutional capacity of one of the South African municipalities with a strong focus on the following objectives:

1.4.2 Objectives of the study

- To review literature on LED.
- To understand the institutional structure of the EMM’s LED unit.
- To understand the roles and functions of the LED unit.

- To uncover the existing linkage of the EMM's LED unit with other municipal departments as well as other municipalities.
- To understand the extent to which EMM's LED unit is aligned to national guidelines for implementing LED in South Africa (National policy framework).
- To understand the constraints or challenges and opportunities faced by the unit in promoting LED.
- To suggest some of the recommendations that LED can use to enhance their capacity to implement LED.

1.5 RESEARCH QUESTION AND SUBSIDIARY QUESTION

1.5.1 Research Question

The main question, which this study is trying to address, is to find out if the LED unit of Ekurhuleni Municipality is adequately equipped to implement current LED policy, particularly the recommendations of the draft Policy guidelines for Implementing Local Economic Development in South Africa. The research also attempts to ask in terms strategic mechanisms, which can be used to enhance capacity to implement LED.

1.5.2 Subsidiary questions

- What are local and international approaches of institutionalizing LED within municipal structures?
- What is the institutional structure of the EMM's LED unit?
- What are the roles and functions of the LED unit?
- What is EMM's understanding/approach to LED?
- How can its approach be understood within the context of national and international LED debates?

- Are there any links, contacts and exchange between the unit and other municipal structures? E.g. IDP unit or other sector departments such as water, transport, and so forth?
- What is the level of collaboration with private sector and other LED stakeholders?
- How does EMM municipality encourage the formation of partnership and coalition structures?
- Evaluate the overall performance of the unit into current LED policy guidelines in Implementing Local Government in South Africa?
- What are the recommendations that could be used in improving EMM municipality's ability to implement their LED mandates?

1.6 ARGUMENT IN RELATION TO RESEARCH QUESTION/HYPOTHESIS

There are challenges encountered by municipalities in promoting Local Economic Development (LED), not only in EMM but also in all municipalities across the country. It is suggested that some of these blockages are lack of resources, lack of entrepreneurial spirit, lack of institutional capacity (skills, finance, and so forth) and inability to situate national policies into the local context. Furthermore, it is suggested that if EMM, a relatively well-resourced municipality with apparently strong economic potential has difficulty in implementing LED policy, then less capacitated municipalities are likely to have far greater problems.

1.7 BRIEF DESCRIPTION OF THE CONTENT AND MAIN POINTS OF EACH CHAPTER

Chapter 1 provides a background of the study; this discusses the context within which the study has been developed, states research question/s

clearly, rationale and problem statement, justification of the chosen case study, aim and objectives.

Chapter 2 provides a conceptual framework; the conceptual framework is fundamental to reflect on how this research fits in to the larger academic project, giving different perspectives by different authors on the same area of study, the different schools of thought on my topic (theories of institutional capacity), and international experience of LED.

Chapter 3 provides a comprehensive research processes and procedures, which were used for this research. This chapter will also deal with other issues such as limitation of the study as well as ethical consideration.

Chapter 4 presents findings and analyses is provided; this will reflect on the main findings, both primary and secondary data, it is set out to interrogate the main findings.

Chapter 5 summarizes each of the research chapters and highlight how they fit into the larger thesis; this includes concluding comments and points out areas of further study and investigation. Moreover, this chapter will further suggest some recommendations that can assist in enhancing the capacity of EMM to promote LED.