

# **THE ROLE OF LOCAL ECONOMIC DEVELOPMENT AGENCIES (LEDAs) IN SUPPORTING LOCAL INNOVATION**

**By**

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## **1. Abstract**

The purpose of the research is to identify interventions required for Local Economic Development Agencies (LEDAs) to achieve their role in supporting local innovation.

This study uses a qualitative research methodology of inquiry and analysis of LEDAs. The methodology is based on a process in which themes are developed from categories that emerge from the analysis of data collected through techniques such as unstructured discussions with most of the Industrial Development Corporation (IDC) grant-funded LEDAs' management and administrative personnel; parent-municipalities' management; political leadership (mayors and councillors); observations, documented case studies on the five (5) LEDAs under study (ILembe, ASPIRE, UMhlosinga, Mandela Bay, and Lejweleputswa); and other LEDAs within the South African context, and those in other developing and developed countries. Given that the IDC has to date funded almost thirty (30) LEDAs throughout the nine provinces of South Africa, the five (5) LEDAs sampled, have been purposively selected.

This study addresses the challenges that LEDAs face if they are to be successful. These challenges involve striking the right balance between operational freedom or agility and the need for effective policy and strategy leadership and supervision from the public bodies involved. There are also critical communication challenges that have to be addressed. Despite widespread acceptance within government of the need to pursue active economic development policies, it is not immediately apparent to citizens or media commentators that this is a natural arena for local government activity, and there is limited appreciation of what is appropriate local development activity or investment.

From the study, it is evident that, since local economies respond best to integrated approaches that combine physical, social, economic, and environmental interventions, and these are activities where responsibility is usually widely dispersed amongst a range of bodies and authorities, it is critical that there is effective leadership both within the LEDAs and within the wider range of bodies to achieve co-

ordination. Leadership overcomes institutional rigidities and gaps in mandates by fostering an integrated vision and collaborative organisations. At the same time, the possible absence of leadership in local government, in the business community of a locality, and in the LEDAs themselves, would make an integrated approach and public confidence very difficult to achieve and sustain.

Drawing on the results of the study on the five (5) IDC-funded LEDAs, it is evident that there is overwhelming confidence in the LEDA model across local municipalities within the South African landscape. This is also pertinent in most developing countries, as is also the case in Organisation for Economic Co-operation and Development (OECD) countries. Through analysing the findings of the study, it has emerged that research consistently proves that historically, numerous developed and developing countries have opted to use the LEDA models as a preferred vehicle to implement local economic development at local and district municipality levels. However, for all LEDAs, there is a primary need to first define what value the LEDA will add, with clear goals and roles to its locality, before it is established.

Furthermore, the analysis does not focus only on the LEDA in isolation, but focuses on the coherence and efficiency of how all the relevant institutions and formations in a locality work together in a 'local innovation system' (LIS). There is a tendency in the economic development arena to expect that a LEDA should succeed 'on its own' rather than by working within a local innovation system (LIS). This study has observed that, for LEDAs to be effective, they should operate within the well designed and co-ordinated local innovation system. This implies that the system of organisations for local governments must be well managed and integrated. This requirement must not be placed on LEDAs alone, but on all the relevant institutions and formations within a particular LEDA's locality.

It can be concluded from the findings mentioned in Chapter 4 that there is a 'golden-thread' that is characteristic of the five (5) LEDAs discussed in the study. This 'golden-thread' serves as a recommendation for LEDAs to adopt for them to be successful in achieving their mandates.

## **Declaration**

I declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Management in Innovation Studies at the Wits Business School in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.

Ornet James Nene

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*“There is nothing like a self-made man, every person you have met has played a role in shaping who and what you are”*. Thus, to all those I have met and interacted with throughout this research project and are not explicitly mentioned, I shall forever be grateful and pass on the goodwill to empower those I meet.

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**Abbreviations:**

|      |  |
|------|--|
| ADA  | Aspire Development Agency                              |
| ADS  | Agency Development & Support (Department)              |
| DTI  | Department of Trade & Industry                         |
| EIDA | Enterprise ILembe Development Agency                   |
| IDC  | Industrial Development Corporation                     |
| ILO  | International Labour Organization                      |
| IPAP | Industrial Policy Action Plan                          |
| IS   | Innovation System                                      |
| LDA  | Lejweleputswa Economic Development Agency              |
| LED  | Local Economic Development                             |
| LI   | Local Innovation                                       |
| LIS  | Local Innovation System                                |
| LEDA | Local Economic Development Agency                      |
| MBDA | Mandela Bay Development Agency                         |
| MFMA | Municipal Financial Management Act                     |
| UMDA | UMhlosinga Development Agency                          |
| NGP  | New Growth Path  |
| OECD | Organisation for Economic Co-operation and Development |
| UNDP | United Nations Development Programme                   |



# **1. CHAPTER 1: INTRODUCTION**

## **1.1. Background**

The study concerns the role of Local Economic Development Agencies (LEDAs) in supporting Local Innovation (LI). This chapter provides the context for the study, which is South Africa, with specific focus on the five (5) LEDAs funded by the Industrial Development Corporation (IDC), namely: ASPIRE, uMhloosinga, Nelson Mandela Bay, Lejweleputswa and ILembe LEDAs. The chapter provides the background to the evolution of LEDAs, states the research problems, poses the research questions, outlines the research purpose and objectives, provides operational definitions of terms and outlines the overview of the chapters contained in the study.

## **1.2. LEDAs**

LEDAs originated in Europe during the late 1950s, in an attempt to address the economic devastation of World War Two (WW2) and the LEDA approach has proven to be popular in both developed and developing countries (OECD, 2009). These countries have made a conscious decision, through a wide range of local, regional, and national governments in OECD and developing countries, to place some or most of their local economic development activities under the operational control of appropriately regulated and supervised company structures/defined agencies, rather than to manage them from within a municipal platform (a council department or service directorate). This approach has gained widespread acceptance internationally (OECD, 2009).

Various countries, developed and developing, many local governments, and their regional and national governments, have innovated organisationally over the past two decades to create new development tools and LEDAs, and other Local

Economic Development (LED) entities that have some specific tasks in pursuing their development agendas. This was a direct response to the place-based crises caused by war damage, industrial decline and dereliction. These LEDAs were initially seen as a short-term response to an emergency. For instance, in France, Germany, and Belgium, LEDAs were set-up with the intention of redeveloping damaged and derelict sites and triggering a process of economic re-stimulation. To this day, closures of major local facilities (such as a defence force base, a major factory, or a port) can trigger the establishment of a new LEDA (OECD, 2009).

It has to be understood that, although LEDAs have become an increasingly popular organisational vehicles for shaping and pursuing local economic development strategies, there is still no uniform understanding, or universal formula, of what a Development Agency is. Even though there is no single definition of what a LEDA is or its objectives should be, it is presumed that there are probably more than 15,000 such organisations currently throughout the world, with more being created annually. LEDAs may vary in size, scale, and function and have arisen from differing mandates (OECD, 2009).

Since the 1950s through to the 1990s, numerous new LEDAs have been established in Europe, North America and East Asia, often with broader missions than those of the original LEDAs. These LEDAs were designed to promote economic development in the context of increasing international and national competition for investment. During the 1990s and in the past decade, LEDAs have begun to take centre stage in many developing countries such as Africa and Latin America, and this trend is growing rapidly (Nel, 2004).

Focusing on the South African context, the Department of Trade and Industry (DTI) approached the IDC as a state-owned development funding institution, in 2002, to assist district and local municipalities in executing their LED mandate. The IDC adopted the LEDA approach in assisting local municipalities achieve their LED mandate.

### **1.3. Problem Statement**

Since 2002, the IDC has funded over 30 LEDAs within municipalities throughout South Africa. However, over time there has been a perception that these IDC funded LEDAs, as entities of local municipalities, are not achieving their role of supporting local innovation since their establishment. This is evident in the lack of visible development of local economies in most municipalities that have established IDC funded LEDAs. The local actors, such as local business (firms, small and medium enterprises, informal traders); local research institutes and academic institutions, and local communities, have been vocal in expressing their collective views that these LEDAs are not supporting local innovation as expected. If these LEDAs do not achieve their intended mandate, the consequences can be dire since they may not attract additional funding from the IDC as their main source of funds. This will lead to a lack of economic development that will have other implications for all the local actors. This will further stifle economic growth and local innovation of the municipalities, thus ensuring LEDAs fail in achieving their mandate.

Given that, this study is motivated by the need to appreciate the dynamics of innovation in the informal sector of economies, particularly within the developing country context. Even though this study endeavours to highlight, through directing its focus on the five (5) IDC-funded LEDAs, and the challenges faced by the LEDAs in fulfilling their respective mandates; there still exists a need to research extensively the ability and capability of LEDAs to fulfil the mandate of appreciating and unearthing the dynamics of innovation in the informal sector. This is particularly relevant within the developing country context.

### **1.4. Research Questions**

- i. Which policies and strategies currently are implemented by LEDAs?
- ii. What factors hinder or facilitate the achievement of outcomes intended by these strategies?
- iii. How can the role of LEDAs be enhanced in supporting local innovation?

## **1.5. Research Purpose**

The purpose of the research is to identify interventions required for LEDAs to achieve their role in supporting local innovation.

In undertaking the research, the researcher was guided by the following considerations:

- i. To elucidate the requirements of a LEDA in supporting local innovation;
- ii. To find out what is required of a municipality in supporting a LEDA;
- iii. To identify processes to be undertaken by a LEDA in supporting local innovation.

## **1.6. Chapter Outline**

Chapter 2: This chapter focuses on the review of the five (5) local economic development agencies (LEDAs): (Enterprise ILembe; Aspire; Lejweleputswa; uMhlozinga and Mandela Bay). Emphasis was put on the strengths and challenges that contributed to LEDAs to deliver on their mandates. Furthermore, a review of the sustainability of these five (5) LEDAs was done, based on the evaluation of the progress made thus far by these LEDAs.

Chapter 3: The chapter focuses on the research strategy and methodology; it also highlights the limitation of the study and states the ethical considerations.

Chapter 4: This chapter focuses on presentation, analysis and interpretations of data captured. Furthermore, the chapter reports on methods used for data analysis, the preliminary and final report of analysis of lessons learned.

Chapter 5: This chapter focuses on the strengths of the five (5) LEDAs under review and how these strengths led to their respective successes. Furthermore, focus was on the challenges faced by these five (5) LEDAs and how these led to their failures in certain areas of their respective mandates, thus leading to their non-achievement

of the goals and objectives. The study endeavours to compare and contrast both successes and failures experienced by the five (5) LEDAs with similar experiences by other LEDAs within developed and developing country-contexts.

Chapter 6: Recommendations for improving the role of LEDAs in supporting local innovation are detailed in this chapter. The chapter indicates a summary of the research and gives a brief overview on the content of the study as well as the conclusions and recommendations.

## **2. CHAPTER TWO: REVIEW OF AGENCIES**

### **2.1 INTRODUCTION**

Chapter one outlined the basis and objectives of the study; this chapter focuses on the literature review pertaining to the role of Local Economic Development Agencies (LEDAs) in supporting local innovation (LI). The literature presented by this study is bound together by the following themes: local economic development (LED); local economic development agencies (LEDAs); innovation; local innovation (LI); innovation system (IS); and local innovation systems (LIS).

In various economies throughout the world, various forms of LEDAs have been implemented: in Europe after World War II to aid post war re-construction; in North America in the 1960s and 1970s to address the impact of de-industrialisation in the 'rust belt'; in East Asia in the 1980s and 1990s to help plan and manage rapid urbanisation and industrialisation; and in the current era in Latin America, South Asia, Africa and Eastern Europe to promote economic development in the newly integrating economies (Mountford, 2009).

This chapter focuses on the different waves of evolution of LEDAs since the 1950s and the 1960s throughout the European countries; North America, parts of east Asia, Latin America, Africa. The evolution of these LEDAs in different parts of the continent was in part fuelled by rising industrial and technological developments, and in part by the need to create settlements and urban development more rapidly to accommodate growing populations (Mountford, 2009).

In reviewing the evolution of LEDAs within the continent of Africa, focus is on South African LEDAs, with specific emphasis on the IDC-funded LEDAs since 2000. The IDC has provided grant-funding to more than thirty (30) LEDAs throughout the country. However, this study focuses on the following five (5) LEDAs, Enterprise ILembe; Aspire; Lejweleputswa; uMhloosinga and Mandela Bay. The emphasis is on the role of these identified LEDAs in supporting local innovation within their respective municipal jurisdictions. The rationale for choosing these five (5) LEDAs is

influenced by their varying mandates, their location within the South African provinces, and towns, and their differing phases of funding from the IDC.

## **2.2 INNOVATION SYSTEMS (NATIONAL, REGIONAL AND LOCAL)**

Freeman (1987) defines the national innovation system (NIS) as “a network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies”. Lundvall (1992) defines NIS as “the elements and relationships which interact in the production, diffusion and use of new, and economically useful knowledge... and are either located within or rooted inside the borders of a nation state”. Lundvall, et al (2009) further state that “...the national innovation system is an open, evolving and complex system that encompasses relationships within and between organisations, institutions and socioeconomic structures which determine the rate and direction of innovation and competence building emanating from processes of science based and experience based learning.”

Further contributions to the debate continued throughout the 1990s where scholars submitted theoretical and empirical studies highlighting important characteristics of NIS. For instance, Lundvall (1992) focused on the features of the learning process in NIS, which he emphasized as developing from institutional roots. On the other hand, Edquist (1997) forwarded an identification of the economic and social determinants that permit development of NISs.

In the 1990s, at the height of scholars' submission of theoretical and empirical studies on NIS, some writers were starting to question the advantages of considering innovation at the national level. These scholars began to depart from the NIS concept, instead focusing on analyses of the regional innovation system. The argument was that the region is considered as an entity smaller than the nation, yet still with significant governance capacities over local territories, as well as a level of cohesion that distinguishes it from the overall state and from the other regions. It is further argued that it is at this level that analysis of innovation systems should be rewarding (Cooke et al. 1997).

This led to some scholars using the term 'local innovation system' (LIS) to identify a place where a process of collective learning is localised, but where this process is not necessarily limited to occurring within the local geographical borders (Martin and Simmie, 2008).

Cooke et al. (1997) define the LIS as a system "in which firms and other organisations are systematically engaged in interactive learning through an institutional milieu characterised by embeddedness". Asheim and Isaksen (1997) add that "a local innovation system consists of a production structure (techno-economic structures) and an institutional infrastructure (political-institutional structures)". Doloreux (2002), instead, concentrates on the aspect of the LIS as a social system, which features relations among different groups of public and private actors, acting in a systematic manner and resulting in increased learning potentials within the given region (Ferretti & Parmentola, 2015).

These scholars further argue that the main function of LISs is to generate new, practical knowledge and to commercialise it. In this manner, the local economy gains evolutionary momentum through the generation of innovation, which is produced by recombining various types of endogenous knowledge with new knowledge sourced externally. Therefore, the interaction of the local actors with the external environment determines the extent to which the local economy is exposed to positive or negative lock-in, and the creation of new paths of development. This means that the level to which the actors in a local economy can access, understand and convert leading-edge knowledge to new products and services defines their capacities to generate new pathways and renew old ones. Conversely, where the local actors lag behind the new knowledge frontiers, there is bound to be an increasing likelihood of the economy becoming locked into ageing technologies and going into decline (Martin & Simmie, 2008). Martin and Simmie (2008) further postulate that LISs have the following characteristics: (i) sectorally and institutionally diverse knowledge-generating businesses and institutions, able to draw innovative ideas from many potential sources; (ii) firms at high levels of specialisation, capable of supplying the best to national and international markets; (iii) commercial and marketing know-how, based on awareness of international markets and technological conditions; (iv) a social culture that demonstrates and tolerates diversity, and offers new ideas and ways of doing things; (v) firms that are able to exploit knowledge and to support

knowledge applications by others; (vi) high levels of technical sophistication among producers and users of technology; (vii) economies of scale; (viii) international knowledge spill-overs from sophisticated customers, including locally represented multinational companies, which provide the LIS with information on leading-edge knowledge, products and services. While all these characteristics are objectively possible elements of an LIS, individual localities will have different combinations and strengths in each of them. In many cases, one or more of these phenomena will be missing altogether (Martin & Simmie, 2008).

In defining NIS, Howells (1999) offers a definition that distinguishes two typologies of LIS whereby the classification criteria are “top-down” or “bottom-up”, depending on the connections between the local and national systems. This implies that the top-down LIS takes form as a sub-system of the national system, stimulated by national policies at the local level. In the bottom-up case, the local systems originate autonomously and it is their independent interaction that ultimately leads to the development of the national innovation system. The bottom-up LIS presents three specific elements: a local structure of autonomous governance, strong local industrial specialisation, and high capacities for innovation among local firms (Ferretti & Parmentola, 2015).

### **2.3 THE RELATIONSHIP BETWEEN INNOVATION AND ECONOMIC DEVELOPMENT**

The OECD’s Oslo Manual defines an innovation as “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations” (OECD, 2005)

According to Tidd and Bessant (2005), innovation is imperative. Innovations vary along at least five dimensions; type and degree of novelty of the innovation, type and size of the organisation in which the innovation project took place and the environment/sector in which the innovation was developed (Eveleens, 2010). Eveleens (2010) further unpacks the five dimensions of innovations as follows: the initial dimension of innovation is the innovation type. Some authors tend to

distinguish between product, process and service innovations (Luecke and Katz, 2003; Albury, 2005). This is followed by the degree of novelty of an innovation. Authors in this field, such as Jacobs and Snijders (2008) refer to a 'fuzzy' approach to novelty wherein all innovations can be assigned along an axis from incremental to radical. Even Albury and Mulgan (2003), amongst others, refer to incremental, radical and systemic innovation. The third dimension makes a distinction between innovations that happen in a private firm or in a public organisation. There is a suggestion that the management of innovation in public organisations differs from that in private firms (Hartley 2006). The fourth innovation dimension takes into consideration the size of the organisation. Then the last dimension takes into account the stability of the environment - this is done with the intent to determine the extent this affects the management style (Eveleens, 2010).

### **2.3.1 Defining the innovation process**

Schumpeter (1960) introduced the concepts of innovation and innovativeness to the theory of economy. He further defined innovation as the application of new solutions' dissemination in practice by distinguishing three consecutive phases constituting an innovation cycle made up of invention, innovation and diffusion. As stated by Sztando (2010), Schumpeter made a distinction between an invention and innovation by highlighting the fact that it should be understood as the process of a new product, procedure or standard implementation and practical application – if they meet novelty requirements. Therefore, the process of diffusion of innovation within the framework of economy sectors represents the final stage of the innovation cycle. This meant that innovations' diffusion may also be conducted by their proper adaptation, inter-sector and spatial spreading. The *Schumpeterian triad* refers to innovation categories that mark the changes underlying the process of commercialization which means that innovation occurs when changes result in products or processes of economic value. The discussed market concept of an innovation process (cycle) defines innovation as entities' capacity to participate in this process. This can be interpreted to mean that a particular innovation results from a change – carried out with due awareness, in a goal oriented and lasting manner – modifying or introducing new components to the way or effects of an entity creating it, or entities applying innovation (Sztando, 2010).

### 2.3.2 Dimensions of Innovation

According to Tidd and Bessant (2009), innovation dimensions can be divided into four different classes and into two categories. They have further developed a framework referred to as “The 4Ps of innovation space”. In terms of the framework, every innovation can be mapped somewhere in the four dimension space. The dimensions are process, position, product and paradigm. These scholars went further to develop a visual table depicting the innovation dimensions. Figure 1 below depicts the four innovation dimensions divided into two categories: radical and incremental (Tidd & Bessant, 2009).

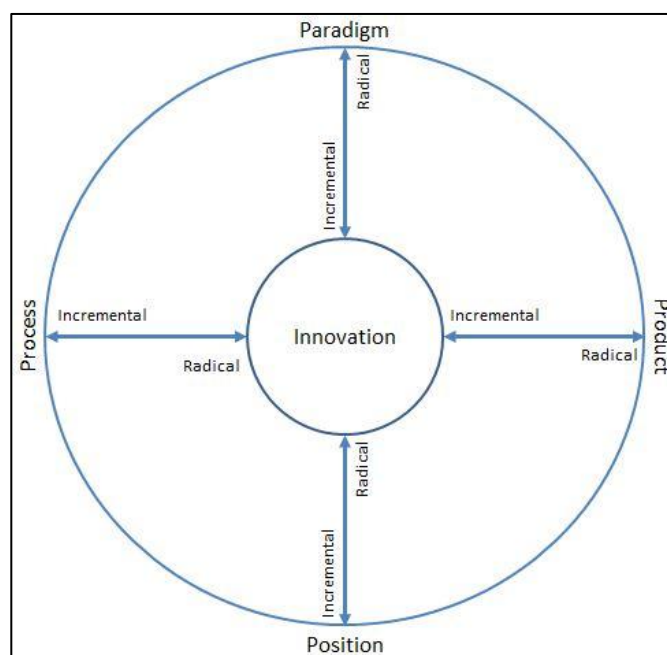


Figure 1: Framework: 4Ps of Innovation space (Tidd & Bessant, 2009)

Aubert (2004) argues that innovation should be understood as something new to a local context. Therefore, the relativity to the context is important and particularly relevant for developing countries, such as South Africa. Aubert (2004) further distinguishes that there are three forms of innovation. The first form of innovation refers to local improvements based on the adoption of technologies which are more or less available worldwide or locally (“technology adoption”). Then the second type of innovation materializes in the building up of competitive activities with some adaptation made to existing technologies (“technology adaptation”).

Finally, the third type of innovation is the design and production of technologies of a worldwide significance (“technology creation” from a global perspective) (Aubert, 2004).

### **2.3.3 Challenges Faced by LEDAs Related to Innovation**

According to Tidd and Bessant (2005), in most developing countries, educational levels are low and this is a significant barrier to the development and diffusion of innovation in these countries. This, invariably, will impact negatively on the achievement of LEDAs’ mandates within these developing economies. Tidd and Bessant (2005) further argue that it is simple to establish a clear relation between educational needs and the different phases of industrialization. This means that, in the pre-industrial phase, educational needs demand only basic literacy; in the industrial phase, more professional and medium-level skills are required; and in the post-industrial phase, there is a need for a significant share of a population with tertiary education, with the rest of the population having at least functional literacy.

Aubert (2004) also argues that the influence of the quality of the business environment, linked to governance conditions, on innovation performances is also clearly demonstrated. Thus, the appreciation of the business environment should be approached with some caution. Hence, the quality should be seen from the perspective of countries themselves with their own values and cultural specificities. Therefore, a lack of financial transparency is not necessarily a problem in a number of cultures. However, on the other hand, a bureaucratic climate which forces an entrepreneur to obtain a hundred authorizations to establish his/her enterprise is a problem, whatever the culture in question. This means that, when judging the quality of a business environment, it is of crucial importance to go beyond the formal appearance of laws and to examine how laws are applied in practice in taking due account of the more or less informal relations regulating transactions among economic agents.

Within the developing country context, lack of infrastructure has always been challenge. An appropriate instance is the mobile phone technology which has transformed the conditions of telecommunications in developing countries.

However, the tele-density remains weak in a number of developing countries, inferior to what may be considered the minimal threshold for take-off (around 30 percent). Infrastructural needs for innovation in developing countries are, however, not limited to telecommunications. There are other infrastructural challenges for developing countries such as road, transport, as well as sanitation, water, and other systems, which are of primary importance.

The significance of this overall problematic environment is that innovation systems in developing countries are poorly constructed and are very fragmented. Furthermore, there are a large number of micro-enterprises that operate in the informal economy, and there is a substantial number of foreign-based firms, which tend to be disconnected from the rest of the economy (Aubert, 2004). This invariably has an adverse impact on the LEDAs operating in such environments since there is lack of social capital that has to come from the pillars of the local economy, from actors such as local government, business, communities and other institutions.

#### **2.3.4 Innovation as a community-based 'collective learning' process**

Brown and Duguid (1991) argue that 'working', 'learning' and 'innovating' are but different dimensions of the same reality. They further contend that innovation is fostered through people with different specialisms learning together. Therefore, it can be deduced that life and work problems have multifaceted and related aspects that can only be addressed by collective work and learning. This means that innovation is a complex multi-faceted socio-technical process that is nurtured by interactive learning. Local innovation happens in those LEDAs that have built the capacity to set up collaborative learning networks on how to improve their respective localities. This means that a LEDA can act as 'the spider' in a learning-network web within its local jurisdiction.

Prolinnova (2009) argues that local innovation (without an "s") is the process by which people develop new and better ways of doing things by using their own resources and their own initiative. In so doing, they may be exploring new possibilities simply out of curiosity, or may be responding and adapting to changes in the condition of natural resources, availability of assets, markets and other socio-

economic and institutional contexts brought about by higher-level policies, disasters, climate change and other external influences. Local innovation often occurs in the face of new challenges or opportunities. The outcomes of these processes are local innovations (with an "s") that have been developed and are understood and owned by local people. These innovations may be developed by individuals or groups or even entire communities. In other words, they may be technical and socio-institutional innovations, including policy change at local level, e.g. bylaws for using natural resources. A successful process of local innovation leads to local innovations that improve the lives of many people in the area and/or of particularly disadvantaged people, such as the poor and marginalised – a segment of the local population that, in many societies, includes women (Prolinnova, 2009).

Lundvall (1992) encapsulates in the concept of 'local innovation' as the process where all actors who share the same local context endeavour to co-operate with one another in addressing both economic and social innovation. This process involves the establishment of locally driven bottom-up networks involving public and private economic employment actors, research and development centres, social partners, universities and other educational and training institutes. This requires that local communities collaborate in an integrated way with all parts of the local innovation system (LIS) moving forward together.

### **2.3.5 Defining the concept 'Local'**

Notwithstanding the emphasis on globalisation and the argument about the 'end of place and distance' owing to the progress in information and communication technology, the 'locality' is continuing to affirm itself as a focal point for economic and social life. Therefore, due to their smaller scale, LEDAs have the potential to coordinate their planning efforts and to be more flexible than larger provincial or national agencies in coming up with solutions for social and economic development. The myriad possibilities for close collaboration, coupled with the feeling of a communal identity and a shared history, has the potential of generating commitment to work hard at local level, building 'social capital'. The word 'local' in the 'local innovation' sense, therefore, has to be analysed in a broad way to refer to a

geographical area or locality whose actors share common objectives, opportunities or challenges. This means that the differentiator regarding the 'local innovation system' is not its statutory or non-statutory regional status, but rather the existence of a 'networking' and 'horizontal' form of co-operation among actors in the same territorial area who have a common interest in working together for a common goal or common good. The strengths of localities are as follows: (a) people have shared common interests and history; (b) small geographical size leading to proximity of actors to one another; (c) infrastructure for co-operation and a context for learning from one another (Gustavsen, Nyhan and Ennals, 2007).

The geographic scale at which LEDAs operate varies, although most operate at a regional or metro level. In Mozambique, LEDAs are provincial, whereas in the UK they are regional. It seems clear that the fact that a LEDA is called a Local Economic Development Agency does not mean that it operates at the smallest scale of government, but rather at a sub-national level. It is important to consider the most appropriate spatial or geographic scale for LEDAs, particularly when weighing up whether a LEDA is more likely to be successful than other structures, such as a municipal LED unit (Xaba, 2008).

## **2.4 LOCAL ECONOMIC DEVELOPMENT (LED)**

The World Bank (2014) defines Local Economic Development (LED) as a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation, with the aim of building economic capacity of a local area to improve its economic future and the quality of life for all. Thus, Local Economic Development entails a targeted intervention focusing on local rather than national economic activity in a specific area. The term 'local' is relative and can mean a neighbourhood, town or metropolitan area in the context of a region or nation; it can refer to a region in the context of a nation, and it can signify a nation or even a multinational region in the context of the global economy (Ettlinger, 2001). For the purposes of this discussion, local shall mean a (rural) neighbourhood or small town or a combination of the two.

Nel (1995) recognizes that there is no universally accepted definition of LED. Bennet (1990) argues that LED refers to sub-national action, usually sub-state, taking place within the context of the local labour market. Building on this definition, Nel describes LED as an applied economic development strategy which seeks to address site-specific needs through locally appropriate solutions (Nel, 1995). Although there are many definitions of LED, they all are permutations of the same theme, with the core tenet of LED being to induce economic development and growth in a locality with the objective of creating jobs and improving the quality of life for everyone by realizing a locality's full comparative advantage (Nel, 1995).

LED requires a high degree of co-operation between the public and private sectors, and local communities. The role of the public sector is often to create an environment conducive to LED, including infrastructure development. However, without the involvement of all parties, interventions are unlikely to succeed. The International Labour Organization (ILO) highlights how centralized and macroeconomic policies have not supported local development; this has led to higher levels of regional imbalance, thus the need for LED strategies as a means to focus on decentralization (ILO), LED supports local development through the establishment of industries, factories and small businesses, integrating work and residential areas, and the development of local infrastructure (ILO, 2006).

Furthermore, the ILO distinguishes four core features that characterize LED strategies: (1) participation and social dialogue; (2) a focus on territory; (3) the mobilization of local resources and competitive advantages; and, (4) the imperative for high levels of local ownership and management. Therefore, these four characteristics are brought together in its particular definition of LED as a “participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory, enabling the joint design and implementation of a common development strategy, by making use of the local resources and competitive advantage in a global context, with the final objective of creating decent jobs and stimulating economic activity” (ILO, 2006).

According to Rogerson (2010), within the South African context, the development of guidelines to local governments has been the prime role of national government. This given the fact that South Africa is the country with the most advanced

programme of local planning in Africa (Rogerson, 2010). Rogerson further states that the challenge for national governments is thus to enhance by all means possible, the investment climate as an enabling framework for local development activities by sub-national agencies and local governments, a challenge which has been recognized in LED interventions in South Africa (Rogerson, 2010).

## **2.5 PRO-POOR LED IN SOUTH AFRICA**

According to Rogerson (2006), whilst a significant policy and legal basis for pro-poor LED has clearly been laid in South Africa, there is still no formally approved LED policy. The 2002 version had a defined pro-poor focus (it was called 'Refocusing Development on the Poor'). It argued a case for promoting 'pro-poor' LED which would explicitly target low income communities and the marginalised as the policy focus of government policy. The LED policy suggests six "developmental" LED strategies for support, namely: community-based economic development; linkage; human capital development; infrastructure and municipal services; leak plugging in the local economy; and, retaining and expanding local economic activity. Rogerson further states that there are three critical policy areas which relate to improving regulatory frameworks, municipal services delivery, and issues of employment creation through the stimulation of local economic activities (Rogerson, 2006).

A new LED policy document was released in 2005 entitled 'Policy Guidelines for Implementing Local Economic Development in South Africa'. The policy aligns LED with a range of government programmes as well as provincial strategies and local IDPs. Thus, LED is clearly seen as a key mechanism to help in closing the gap between the first and the second economies that distinguish the South African economy (Rogerson, 2000). Augmenting the laws and policies directly supporting and encouraging pro-poor LED, other instruments that provide support for implementation have been established. Some of these instruments include the introduction, within the district and local Municipal environments, of the Integrated Development Planning (IDP) process which requires an economic and spatial development component, promotion of community participation and appropriate institutional and funding mechanisms. Furthermore, a number of financing mechanisms have also been established across the national government, including

an LED Fund, Municipal Infrastructure Grant, Integrated Sustainable Rural Development Programme and the Urban Renewal Programme. Even though South Africa lacks an embracing LED policy document, and that the above-mentioned interventions are not specifically named as 'pro-poor' strategies, what the country has in place are impressive laws, policies and funding mechanisms which have created a very defined framework for pro-poor LED intervention and support. This has led to a situation referred to by Rogerson (2000) as one in which '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).

## **2.6 LOCAL ECONOMIC DEVELOPMENT AGENCIES (LEDASs) WITHIN THE AFRICAN CONTEXT**

Since innovation refers to the creation, diffusion and use of new ideas applied in the economy (Schumpeter, 1960), the applications thereof can take the form of new production processes, new products, new forms of organisation and new markets. Therefore, according to Lundvall, Muchie, and Gammeltoft (2001), if a less developed economy has the ambition to grow and create more and better paid jobs for its citizens, continuous innovation, in this broad sense, must be part of the solution. This means that hard work, investment and more efficient use of resources are important elements in any development strategy. Particularly for less developed economies, in order to keep the momentum of economic development, technical and organisational innovations are important.

Innovation might help these less developed economies move into rapidly growing sectors characterised by the production and use of advanced technology. A case in point is the entrance into the production and exports of information technology in Taiwan, South Korea and Singapore which has been one reason for the rapid economic growth in these countries. However, this is an option that is not easy to exploit in most of the African states. This is due to the almost insurmountable prerequisite - access to a highly trained labour force and a reliable infrastructure. For most African countries, this route to wealth may be less attractive than originally assumed in the height of the New Economy era. A point to consider is that the

experience from South East Asian economies points to the instability built into high tech specialisation (Lundvall, Muchie & Gammeltoft, 2001).

According to Lundvall, et al. (2006), within most developing countries, development practitioners and policy-makers are still struggling with understanding how to conceptualize innovation, identifying who are the beneficiaries of innovation processes and more generally conceptualizing innovation system policies in the South. Worse still, in designing innovation policies, policy makers often lack tools for identifying problems in the system and for selecting policies supporting innovation and competence building to tackle them (Lundvall, 2006). Given that innovation systems in developing countries are heterogeneous, with each system embedded in a unique socio-economic institutional context and, in this sense; it is near impossible to identify innovation policies that could be applied to all developing countries.

The growing literature of innovation systems in developing countries suggests that developing countries' innovation systems differ from the mature innovation systems that are found in the developed economies. Therefore, the differences in components and relationships indicate that just imitating innovation policies practiced in developed countries is unlikely to deliver the expected results (Intarakumnerd and Chaminade, 2007).

This study concurs with Lundvall, et al. (2007) that innovation in general, and innovation policy in particular, are crucial for development, at least for two reasons: firstly, innovation policy is crucial for developing countries because innovation and learning, understood in a broad sense, are fundamental for growth and industrial competitiveness and thus for catching up; secondly, innovation policy is crucial for development because innovation can be targeted to solving or mitigating particular development problems (food scarcity, tropical diseases, land erosion, etc.). Therefore, innovation policy may be designed to target social pathologies (i.e. hunger, poor housing conditions, inadequate health care provision), tight economic conditions (a good example are the innovations in the financing industry with the introduction of micro credits) or particular economic activities (agriculture) or structures (informal economy) that dominate the economic structure of many developing countries. This means, broadly defined, innovation is crucial for a socially inclusive catching-up process and for developing novel knowledge in specific areas.

Understood in a broad sense, innovation policy thus becomes a cornerstone of development strategies, particularly in a developing country context (Lundvall, et al., 2007).

According to Lundvall, Muchie and Gammeltoft (2001), most of the current debate on the use of the term innovation and innovation policy in a developing country context emanates from a misconception of what is understood by innovation. They argue that Innovation refers not only to “new to the world” innovations but also to the absorption of innovation and technology existing somewhere else (“new to the firm”). They further postulate that innovation taking place in developing countries is related to the absorption of technology and competence building rather than resulting in introductions of new-to-the-world innovations. This broad conception of innovation is crucial for development and catching-up.

## **2.7 LEDAs IN OTHER COUNTRIES: INSTITUTIONAL FRAMEWORK**

Taking reference from the work by Kevin Cox and Alan Townsend (2005), LEDAs’ experiences globally varies considerably over time, and over space, given that the earliest LEDAs were set up in the 1950s in Europe. At present, LEDAs operate in many differing regions of the world, from the USA to Eastern and Central Europe, to Latin America and Africa. To date, the United Nations Development Programme (UNDP) has been involved in the creation of over 30 LEDAs in developing regions. This organisation has also recently concluded that these LEDAs have been quite effective in terms of employment creation and financial sustainability. In the view of the UNDP, this relates firstly to the comprehensive vision of LED, which is a feature of LEDAs (and is linked to a holistic and cross-sectoral approach to development), and secondly to the catalytic role LEDAs play in drawing together the interests of a wide range of stakeholders. The important features which are said to contribute to the success of LEDAs are the fact that they focus on a particular locality, bringing together in partnerships many key actors who might otherwise act in competition with one another, they develop a strategic overview of the area’s economic potential, and mobilise resources to achieve this.

In focusing on the development of LEDAs within both the developed and developing country contexts, attention is on the institutional framework for Local Economic Development (LED). The United States (US) and the United Kingdom (UK), as developed countries, are focused on. Then the focus is on the situation in various Eastern and Central European countries. Most of these countries are experiencing similar situations and issues that South Africa currently faces, as they come to grips with post-conflict and/or dramatic and rapid transformation. Attention is also on developing countries in Latin America, and Mozambique.

Starting with the UK, the system of decentralisation of power to a more local level began as early as 1978. Within the next 20 years Regional Development Agencies were established in all 9 regions of England. Coming to the USA, State Departments of Development were formed in the 1940s and 1950s, local level development organisations started forming in the 1950s. Notwithstanding many differences between the US and UK, similarities do exist in terms of institutional arrangements for mediating inward investment projects. However, major differences in the institutional framework for LED adopted in the US and UK are the role of the central state, which is more pronounced in the UK, as compared to the greater fragmentation of power in the US (Cox, Townsend, 2005).

Various economies within Central and Eastern Europe have experienced dramatic challenges in the past decade similar to those that pertain within the South African context. These challenges are to do with increased unemployment, especially among unskilled people, lack of business know-how and working capital, leading to an inability to acquire new technologies for development and growth, and lack of business management expertise, especially amongst SMMEs (including lack of international and national marketing skills).

In comparison to South Africa, the transition in Central and Eastern Europe has meant that local government has to perform a number of functions beyond the traditional public services. Again, authorities at a local level are expected to have a better understanding of the needs of the private sector, and to develop ways of creating a supportive environment for economic growth. As with South Africa, a sizable number of LEDAs have been established in local economic development in

both Central and Eastern Europe. Hence, some of these LEDAs often obtain substantial funding from central governments but are not part of the public sector.

In Mozambique, the LED framework has been set up with the assistance of the ILO and other United Nations (UN) agencies. Throughout this African country, LEDAs are seen as essential instruments in the Poverty Reduction Strategy, and are integrated in the government's Action Plan for Absolute Poverty Reduction (PARPA) and act as instruments for local employment creation. Therefore, Mozambique has adopted the approach to LED which sees the appropriate spatial scale of LEDAs being at the provincial level. The key objective of these LEDAs is to support income generation and employment promotion (Xaba, 2009).

## **2.8 LEDAs WITHIN THE SOUTH AFRICAN POLICY ENVIRONMENT**

The implementation of LED policies often requires public-private partnerships, local government leadership, community involvement and the establishment of a LEDA to ensure momentum in the process. Based on the International Labour Organization's definition, Pretorius and Blaauw (2008) succinctly describe LEDAs as independent organizations, shaped by public and private institutions, with the aim of implementing strategies of shared territorial development, with particular emphasis on favouring access for the most marginal portions of a population to opportunities of income and decent employment (Blaauw, 2008).

Local economic development agencies (LEDA) are defined as legal, non-profit structures, generally owned by the public and private entities of the territory which act as a mechanism through which local actors plan and activate, in a shared way, initiatives for territorial economic development; identify the most convenient instruments for their realisation; and enhance a coherent system for their technical and financial support (ILSLEDA, 2007).

According to the OECD, Local Economic and Employment Development (LEED) programmes, which were undertaken to review LEDAs, have four major organising roles which have been identified in local economic development – not all LEDAs play the same roles or do the same things: i) Economic roles: where the LEDA seek to

build markets within their territories. These roles include the Development Agency acting in a risk and cost sharing manner, using entrepreneurial approaches. This involves intermediating with investment, assets, infrastructure, land, property, finance, planning, and marketing/promotion; ii) Leadership roles: where the LEDA plays a key role in fostering a long term plan and vision for the territory, galvanising the interests of multiple leaders and setting out a new future around which resources can coalesce; iii) Governance and co-ordination roles: where the LEDA helps to facilitate practical co-ordination towards the pursuit of the development strategy, helping to overcome the limitations of fragmented multiple jurisdictions and responsibilities in the public sector, and providing a means for practical engagement with the private and civic sectors; ii) Implementation roles: where the Development Agency can assemble dedicated and capable teams to focus solely on pursuing the development strategy. This will involve complex project management and finance skills, business/investor facing services, and the ability to design and use new tools quickly (OECD, 2009).

Within the South African context, the Municipal Systems (MSA) Act (No. 32 of 2000) and the Municipal Finance Management (MFMA) Act (No. 56 of 2003) permit the establishment of municipal entities to undertake a range of services on behalf of the municipality. Hence LEDAs have been established as special-purpose organisations to promote LED. LEDAs, as municipal entities, are special implementation vehicles created by local or district municipalities with the participation of other local actors to achieve their common objectives of supporting local innovation. It should be kept in mind that LEDAs do not make policy, but merely implement it. Policy development lies with the elected members of the municipal council, not with the agency. Therefore, the LEDA's role is to implement the local economic development policy set out in the municipality's strategic documentation, such as the Integrated Development Plan (IDP). LEDAs, as Municipal entities, have a separate legal persona and Section 86B of the Municipal Systems Act provides for three types of municipal entities: i) a private company, which involves a process of incorporation in terms of the Companies Act 61 of 1973; a Service Utility established by way of by-law; and a multi-jurisdictional service utility established by way of written agreement between two or more municipalities (DCoG, IDC, 2008).

As opposed to the South African legislative environment, in most countries, LEDAs are legal, non-profit structures owned by the public and private entities of the locality. Thus, through the LEDA, local actors collectively plan and implement initiatives for the economic development of the locality, identify the most convenient instruments for their realisation and establish a coherent system for their technical and financial support, whereas, in South Africa, flexibility with regard to the form that LEDAs take is more limited due to the provisions of the MFMA. Due to restrictions imposed by the provisions of the MFMA, most municipalities have taken the route of using a municipal entity as the mechanism for establishing their LEDAs. Considerable obligations are placed on a municipality by the MFMA to ensure that legal and financial management considerations are observed and socioeconomic objectives are achieved. Invariably, these obligations have significant bearing on whether or not a LEDA will achieve its desired outcomes.

As per the dictates of the Municipal Systems Amendment Act (No 44 of 2003) (Chapter 8A, 85b.2), no municipality may establish or participate in the establishment or acquire or hold an interest in a corporate body except where such a corporate body is a municipal entity. The Act requires that a municipality enter into a service delivery agreement with the service agency. This means that the agreement needs to both spell out the relationship between the municipality and the LEDA and clarify issues relating to financial management. Therefore, in order to satisfy the MFMA, the municipality has to hold the controlling share of the LEDA (DCoG, IDC, 2008).

It has to be noted that the discussion clearly shows that the LED context in developing countries and those that are restructuring as a result of political or other transformation is often quite different from that of more developed countries. In developing and restructuring societies such as those in Latin America, Mozambique and Central and Eastern Europe, decentralisation of functions to local government has occurred relatively recently. This usually means that at the local level there is a lack of capacity to support LED, poor co-ordination of LED efforts, and a lack of resources. Bureaucratic procedures generally seem more onerous in developing and transforming contexts (Xaba, 2009).

## **2.9 THE INDUSTRIAL DEVELOPMENT CORPORATION: THE FUNDING OF LEDAs**

The Industrial Development Corporation of South Africa Limited (IDC) was established in 1940 by an Act of Parliament (Industrial Development Corporation (Act, No. 22 of 1940)). The IDC is the country's largest Development Finance Institution (DFI) with a mandate to industrialise South Africa and to grow decent and productive job opportunities. The IDC is a key implementing agency of industrial policy, which currently centres on the New Growth Path (NGP) and its manufacturing driver, the Industrial Policy Action Plan (IPAP). Furthermore, the IDC identifies opportunities for sector development in line with policy objectives and plays a catalytic role by developing projects in partnership with various stakeholders. Its funding activities are mainly to the private sector. However, the institution also works closely with different levels of government, government agencies and sector organisations to ensure a co-ordinated approach. In addition, the IDC supports government in other areas related to its development objectives. IDC's action in the rest of Africa is to proactively develop and implement strategies that create and integrate value chains across the continent. This is done through taking advantage of each individual country's strengths, with the intention of developing a more competitive industrial base throughout the continent.

**Vision:** The IDC's vision is to be the primary driving force of commercially sustainable industrial development and innovation to the benefit of South Africa and the rest of Africa (IDC Yearbook, 2014)

**Mission:** The mission of the IDC is to contribute to the generation of balanced, sustainable economic growth in Africa and to the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens. The IDC achieves this by promoting entrepreneurship through the building of competitive industries and enterprises based on sound business principles (IDC Yearbook, 2014).

## 2.9.1 The IDC's Operational Model

**Table 1: IDC Integrated Report, 2014**

| <b>Activities</b>  | <b>Customers</b>   | <b>Business lifecycle</b>   | <b>Sector involvement</b>   | <b>Funding products</b>  |
|--|--|---|---|--|
| <ul style="list-style-type: none"> <li>• Provision of development finance</li> <li>• Project development</li> <li>• Research and policy inputs</li> <li>• Fund management</li> <li>• Non-financial forms of business support</li> <li>• Capacity building</li> </ul> | <ul style="list-style-type: none"> <li>• Business</li> <li>• Government</li> <li>• Other DFIs</li> </ul> | <ul style="list-style-type: none"> <li>• Conceptual</li> <li>• Pre-feasibility</li> <li>• Feasibility</li> <li>• Product commercialisation</li> <li>• Establishment</li> <li>• Expansion</li> <li>• Mature</li> </ul> | <ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Agricultural value-add</li> <li>• Mining and mineral beneficiation</li> <li>• Green industries</li> <li>• Industrial infrastructure</li> <li>• Tourism, ICT, cultural industries and other productive services</li> </ul> | <ul style="list-style-type: none"> <li>• General debt</li> <li>• Quasi-equity</li> <li>• Equity</li> <li>• Export/import finance</li> <li>• Short-term trade finance</li> <li>• Bridging finance</li> <li>• Guarantees</li> <li>• Venture capital</li> <li>• Wholesale funding through intermediaries</li> </ul> |

## 2.10 THE IDC's AGENCY DEVELOPMENT AND SUPPORT (ADS) DEPARTMENT

When the IDC established the Agency Development and Support (ADS) department in 2002, its primary mandate was to fund and support local municipalities throughout South Africa, through providing grant-funding for the establishment of Local Economic Development Agencies (LEDAs). The LEDAs' purpose is to promote local economic development within their respective local governments. Before then, most local economic development programmes, at both local and regional level, were

underfunded and lacked capacity and resources to successfully implement and run catalytic projects. The ADS stepped in to assist these LEDAs with funding, thus creating a favourable environment for LED to thrive and, at the same time, generating much-needed employment within communities. To date, the IDC's ADS department has funded the establishment of 33 agencies in all provinces of South Africa.

A key objective of the ADS department is to create a local environment conducive to or enabling investment activity that can result in sustainable employment including: linking the public, private and community sectors and the promotion of strong social dialogue to focus stakeholders on growth and employment creating activities (social capital formation); supporting job creation initiatives; enhancing local and regional competitiveness and social equity; and supporting broader based participation in the economy (Bartlett, 2007).

### **2.10.1 The ADS' LEDA Approach**

Researching the best institutional arrangements to promote local economic development (LED) has been a mammoth task for local municipal governments and their partners in most countries. This study examines the contribution that has been made by local governments, through local economic development agencies as entities of these local governments, over the past 25 years. The study also examines the rationale behind the choice of the LEDA approach, by both the IDC's ADS department and the local governments, in delivering LED.

There has also been a continued process of re-inventing and updating the role of LEDAs in places where they already existed, changing their focus of intervention and altering which tools are applied, or disbanding the old generation of LEDAs and creating new ones. The shift to widespread local and regional growth policies in many countries of the OECD, rather than the pursuit of 'old style' redistributive regional policies seeking to address only the challenges of lagging regions, has given rise to the recent expansion in the number of LEDAs in the better performing local and regional economies. They are now seen as tools to promote and shape

local economic growth, not solely as tools to stimulate new economic development in the poorer places (Bartlett, 2007).

According to the OECD (2009), the inclination to set up LEDAs with a rationale to respond to a crisis still remains today, but LEDAs have now also been set up for other reasons in many countries. Two major variations are the extent to which LEDAs are established for all territories as a means of promoting competitiveness and productivity (e.g. now in the UK and France) or whether they are only established for particular places that are perceived as needing additional help (e.g. in Canada and in Germany). In developing countries, such as Brazil and South Africa, there are bottom-up initiatives to create LEDAs in one or two places, and only a few national governments (e.g. Mexico and Bulgaria) have opted to create comprehensive coverage of certain kinds of Development Agencies (OECD, 2009).

In this study, several important themes in the work of LEDAs are examined, based on a detailed analysis of five agencies located in three South African provinces (KwaZulu-Natal, Eastern Cape and the Free State). The key focus is on attempting to distil why and how LEDAs are set up and work, what they can achieve and what tools they require, how LEDAs work within wider local development systems, and what can go wrong or need attention if success is to be assured.

Each of these five (5) profiled LEDAs offers some interesting insights for other developing countries, particularly in Africa. Despite their differing contexts and histories, they each support the premise that local governments and their regional and national partners view an agency model as a good way to manage economic development and regeneration activity. Local governments have different powers and duties in respect of economic development and regeneration within the various national contexts of developing countries. However, the use of the corporate structures to pursue economic development and regeneration is, in most cases, a means to optimise the responsiveness of the local government or sub-region to economic drivers, within that framework. In most cases, it is a means to overcome some of the limitations within the prevailing institutional framework, whatever its features may be (OECD, 2009).

## 2.10.2 The ADS Funding Model for LEDAs

**Table 2: ADS Funding Model, (Bartlett, 2007)**

| Phase   | Agency development                           | Objectives   |
|---------|--|--|
| Phase 1 | Pre-funding phase                            | Political buy-in for the agency concept/support and assistance/no financial assistance   |
| Phase 2 | Pre-establishment phase                      | Establishment of legal entity/Internal and external systems and procedures/initiation of internal planning/R1.2 million grant  |
| Phase 3 | Establishment phase                          | Formal agency establishment/long-term operational project planning/R2.8 million grant  |
| Phase 4 | Operational phase<br>Ops 1<br>Ops 2<br>Ops 3 | Programme and project implementation/pursue operational plan/facilitating investment/launching projects/overseeing implementation/M&E/R6 million p.a. for a max of 3 years |
| Phase 5 | Exit phase                                   | Agency functional and launched critical mass of projects/Self-funding/Final evaluation/IDC withdrawal  |

## 2.10.3 The ADS Grant-Funded LEDAs

The IDC, through its ADS Department, has funded 33 LEDAs to the tune of R240 million thus far (i.e. until its mandate of providing grants to municipalities towards the establishment of LEDAs came to an end in 2013). This study focuses on the following five (5) LEDAs at various levels of their respective implementation phase:

1. UMhlozinga Development Agency (UMDA) in Kwa-Zulu Natal Province;

2. Mandela Bay Development Agency (MBDA) in the Eastern-Cape Province;
3. Amatole Development Agency (ASPIRE) in the Eastern-Cape Province;
4. Enterprise ILembe Development Agency (EIDA) in Kwa-Zulu Natal Province;  
and
5. Lejweleputswa Development Agency (LDA) in the Free-state Province.

### **2.10.3.1 UMHlosinga Development Agency (UMDA)**

The UMHlosinga Development Agency (UMDA) is a municipal entity registered private company dedicated to the planning and implementation of a program of sustainable economic growth and development in the district of uMkhanyakude, Kwa-Zulu Natal province. UMDA started its operations in 2008 and has successfully created an environment of developmental engagement with both public and private sectors.

- i) **Vision:** To create an inclusive, thriving economy that directly benefits all of the communities and residents of the Umkhanyakude District Municipality.
- ii) **Mission Statement:** To co-ordinate, plan and manage a locally driven programme to fast-track development of the local economy of Umkhanyakude district.
- iii) **Purpose of the UMDA:** to act as an agent for and on behalf of the Municipality for the purposes of implementing economic, social and environmental policies and projects, as identified by or agreed with the District and local Municipalities of UMkhanyakude; to co-ordinate the implementation of a sustainable, long and short term District Development Program; including its spatial, economic, social and environmental dimensions, its regulatory, budgetary, financial and legal implications and its social and economic consequences; to conduct a regular communications program to all stakeholders; to provide the District of UMkhanyakude with a 'one-stop' contact point for access to possible development funding or technical assistance, as well as information on the priorities and consequences of the implementation of the UMkhanyakude District Development Program; to acquire, own and manage land and buildings, and/or rights to land and buildings, on behalf of the District

Municipality of UMkhanyakude, to be used for economic and social development purposes; for public service, public infrastructure, educational, health and cultural purposes, and to prepare and equip such property as needed to fulfil the development needs of the public infrastructure; for cultural, nature or wildlife conservation purposes; to launch, manage and monitor any study that may be necessary to further its objectives; to collect income; raise, receive and hold funds; or receive guarantees, from any lawful source, for the purposes of the Agency, and to manage, administer and disburse those funds in pursuance of the objects of the Agency and for administrative purposes, in accordance with terms and conditions determined by the Umhlozinga Development Agency Pty(Ltd) and approved by the Municipality of UMkhanyakude.

#### **2.10.3.2 Mandela Bay Development Agency (MBDA)**

The Mandela Bay Development Agency (MBDA), established in 2003 by the Nelson Mandela Bay Municipality, with support from the IDC, is a special purpose development company that has become the driving force behind regeneration in Nelson Mandela Bay. The agency has a mandate and service delivery agreement with the municipality. While it falls under the local authority, it operates as a separate entity but works closely with the relevant municipal directorates.

##### **i) Aim, Mandate and Objectives**

The agency's aim is to project manage regeneration of the Port Elizabeth CBD with a view to promoting economic and tourism development against the backdrop of urban renewal. The mandate area of the MBDA includes the central area of the city, including the CBD, as well as the harbour. While the metropolitan area covers roughly 1 950 square kilometres, the initial mandate area was only 1 039 hectares, or 10.39 square kilometres. However, in 2007, it was allowed to extend its geographical reach to include other parts of the metropolitan area, such as New Brighton, Uitenhage and Despatch, Happy Valley and the new stadium precinct.

### **2.10.3.3 Amathole Development Agency (ASPIRE)**

ASPIRE, registered as the Amathole Economic Development Agency, is a proprietary limited company established in September 2005 and is wholly owned by the Amathole District Municipality. ASPIRE's vision is to be a pioneer in the stimulation of spatial economic development. ASPIRE is positioned as a "trusted advisor, stimulator and partner in the regional economic environment" and their mission is to stimulate locality development, with the objective of regenerating small town economies. They believe that the regeneration of decaying small towns will enhance their ability to contribute to the economy of the Amathole Region, and will improve the quality of life of its residents. ASPIRE's programmes can be classified into the following four pillars.

- **Town-centre development:** Town-centre enhancement schemes that seek to promote vital and vibrant town centres, which are the heart of the town's ability to be competitive. Town centre development schemes include a wide range of initiatives from developing business partnership, marketing the town centre, undertaking surveys, upgrading the physical environment to targeting investment and so on.
- **Growth point or node development:** Encouraging investment into corridors includes the expansion of growth from an area of promising economic activity out towards a more challenging area. By encouraging incremental investment, the aim is to develop an active growth corridor linking richer and poorer areas, reducing social and economic exclusion.
- **Corridor investments:** Encouraging investment into corridors includes the expansion of growth from an area of promising economic activity out towards a more challenging area. By encouraging incremental investment, the aim is to develop an active growth corridor linking richer and poorer areas, reducing social and economic exclusion.
- **Developing markets:** Developing markets within the context of regeneration programme involves tackling socially and economically disadvantaged groups

– youth, women, people with disabilities and unemployed semi-skilled men. These interventions are the most challenging, the most expensive, take the longest time and are the most necessary activity government has to undertake.

#### **2.10.3.4 Enterprise ILembe Development Agency (EIDA)**

Enterprise Ilembe (Pty) Ltd is a private company which is a municipal entity of the Ilembe District Municipality – meaning that all the shares of Enterprise Ilembe are held by the Municipality. The Municipal Systems and the Municipal Finance Management Acts permit the establishment of a local economic development agency as a possible special purpose organisation to promote the local economy. Enterprise iLembe, as the economic development agency for the iLembe District Municipality, is responsible for trade and investment promotions and local economic development.

- i) **Vision:** to make the district the investment destination of choice. Its mandate is to promote trade and investment opportunities in four key sectors: (i) Agriculture, (ii) Tourism, (iii) Manufacturing and (iv) Services.
- ii) **Mandate:** to drive socioeconomic development through poverty alleviation and sustainable job creation. There is a strong positive sentiment from the business sector for new direct investment into the region, creating pressure to deliver on serviced commercial sites for occupation, as well as on the upgrade of existing infrastructure to accommodate the new demands.

The philosophy that drives Enterprise iLembe is built on promoting a participatory process where local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy. It is believed this will help create decent jobs and improve the quality of life for everyone, including the poor and marginalised. This is reflected in the district's Industrial Development Strategy.

### **2.10.3.5 Lejweleputswa Development Agency (LDA)**

Lejweleputswa Development Agency (LDA), as a wholly-owned municipal entity, is governed in accordance with the provisions of Local Government Legislation (i.e. Municipal Finance Management Act; Municipal Systems Act; and Municipal Structures Act). LDA is incorporated as a private company limited, within the Lejweleputswa District Municipality as the sole shareholder and, therefore, is subject to the provisions of the Companies Act. The relationship between the parent municipality and the TMDA is governed through a Service Level Agreement (SLA).

The Lejweleputswa District Municipality is situated in northwest Free State Province and is accessible from Johannesburg, Cape Town, Klerksdorp and Kimberley via the N1 national road. The district is the second largest in the province, occupying 24% of the total area. It incorporates five local municipalities. According to 2004 statistics, the main economic drivers in the district are: mining, agriculture, manufacturing, and community services.

**Aim:** to promote sustainable economic development for the district with job- and wealth-creation as major objectives. Another important goal is to develop the potential of the region to ensure the district becomes an important commercial hub.

**Objectives:** to promote economic development for the district, in the form of creating jobs and wealth as the prime objective; to ensure optimum utilization of district and local municipality assets such as land and property; to create a formal link to the private sector to facilitate the establishment of Public Private Partnerships; to respond to private sector preference that necessitate the creation of a separate entity for sustained and/or increased partnership and involvement; to ensure tourism activities are promoted and prioritized as a means of stimulating local economies; to reduce level of poverty in the district; to ensure finance for SMME and business development; to diversify industrial and commercial sectors in the district; and to ensure Lejweleputswa District is a commercial hub.

### **3. CHAPTER 3: RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This study focused on the qualitative research methodology of inquiry and analysis of LEDAs. The methodology was based on a process in which themes and categories that emerge from the analysis of data which was collected through the technique of semi-structured questionnaires with selected IDC grant-funded LEDAs' management and administrative personnel; parent-municipalities' management; and the respective LEDAs' stakeholders. Furthermore, observations, documentation, and case studies on the five (5) LEDAs under study (ILembe, ASPIRE, UMhlosinga, Mandela Bay, and Lejweleputswa) were employed to gather secondary data.

#### **3.2. Research Design**

For this study, the exploratory research design has been adopted. Since the main purpose of the research is to study the role of Local Economic Development Agencies (LEDAs) in supporting local innovation, primary data on LEDAs is limited. Therefore, the study on LEDAs, in general, still needs to be researched further. According to Cuthill (2002), the function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. This adoption of the exploratory research design is intended to assist in the endeavour to gather evidence that enables the study to respond to the initial research questions: i) Which policies and strategies are currently implemented by LEDAs?; ii) What factors hinder or facilitate the achievement of outcomes intended by these strategies?; and iii) How can the role of LEDAs be enhanced in supporting local innovation?

#### **3.3. Research Methods**

The rationale behind applying the qualitative method for this study is influenced by the need to provide solutions to practical problems encountered by LEDAs in their

endeavour to support local innovation. The following methods were implemented in sourcing data relevant to the study:

The researcher utilized the literature search of documentation on LEDAs provided by the IDC as a grant-funder. This involved reviewing all readily available materials on the IDC funded LEDAs, with particular focus on the five (5) LEDAs under review. This meant that the researcher had to peruse documents that included internal company information, annual reports, company literature, on-line databases, and any other published materials on LEDAs. According to Cuthill (2002), this is an inexpensive method of gathering information, although it often does not yield timely information.

The researcher also used semi-structured questionnaires since it is a logical and easy option for collecting information from respondents. The challenge was to get the completed questionnaires returned. Even though questionnaires were rather difficult to design and the response rate was nearly always slow, they were appropriate for the exploratory research undertaken. The researcher used open-ended questions for respondents to describe their response to a statement. According to Denscombe (2004), questionnaires can be used as a qualitative method of data collection, and if open-ended questions are used, qualitative methods will be also be used for data analysis.

### **3.4. Study Area**

The study is focused on the role of LEDAs in supporting local innovation. However, the location of the study was influenced by the five (5) grant-funded LEDAs under review, namely, ILembe located in KwaZulu-Natal province, ASPIRE located in the Eastern Cape province, UMHlosinga located in KwaZulu-Natal province, Mandela Bay located in the Eastern Cape province, and Lejweleputswa located in the Free State province. The study of these LEDAs is based on the fact that the IDC has thus far financed up to thirty-two (32) LEDAs throughout the nine provinces of South Africa. These LEDAs were selected based on their respective development phases, in line with the IDC funding phases. This means that all five (5) LEDAs are at different levels of the operational phase of funding, which means they all have been

funded by the IDC for at least three years and/or at most, five years. This provides each of the LEDAs with adequate historical background and information to provide justification to engage in comprehensive qualitative research. Furthermore, each of these LEDAs presents a mix of both rural and urban demographics which provides an adequate environment for the study of the role of LEDAs in supporting local innovation.

### **3.5. Data Collection Methods**

For this study, data was collected through the following methods: open-ended questionnaires and documentation. These open-ended questions were provided to respondents from selected IDC grant-funded LEDAs' management; parent-municipalities' management; and the respective LEDAs' stakeholders. Furthermore, observations, documentation, and case studies on the five (5) LEDAs under study (ILembe, ASPIRE, UMhlosinga, Mandela Bay, and Lejweleputswa) were employed to gather secondary data. Qualitative questionnaires, consisting of open-ended questions, were administered to six (6) respondents divided into LEDA senior management and stakeholders. The focus of the questionnaires was to elicit views and opinion on the role of LEDAs in supporting local innovation.

#### **3.5.1. Open-ended Questionnaires**

The respondents were given open-ended questionnaires that they completed as individuals. The respondents were given the latitude to consult with the researcher in case they required further clarity. Given that the questionnaires were open-ended, respondents were prompted to elaborate on their responses. There were two sets of questionnaires separated according to respondents. The first set of questionnaires was sent to LEDA management, such as Chief Executive Officers, in the case of Mandela Bay, UMhlosinga Development Agencies; or Acting Chief Executive Officer, in the case of Lejweleputswa, ILembe and Aspire Development Agencies.

### **3.5.2. Documentation**

In the case of LEDAs, business plans and strategy documentation were requested from the management of the five LEDAs under review (Mandela Bay, UMhlozinga, ILembe, Lejweleputswa and ASPIRE). In addition to the mentioned documentation, financial documents of these LEDAs were accessed. From the parent municipalities of these LEDAs, Internal Development Plans (IDP) and strategic documentation pertaining to LEDAs, as municipal entities, were consulted. Additional documentation, such as monthly and quarterly reports, business plans, impact assessment reports and concept documents submitted to the Industrial Development Corporation (IDC) as the grant-funder of the establishment of the five (5) LEDAs under the study, were reviewed.

### **3.5.3. Data Analysis**

Data collected was in the form of responses to the open-ended questionnaires completed by all six (6) respondents and secondary documentation from LEDAs, funders such as the IDC, parent municipalities and legislative and policy-making institutions such as the Department of Co-operative Government (DCoG), amongst others. The analysis of all the data was done with the sole intent of establishing a summary of all the respondents' major points in relation to the study. Given that this is a quantitative study, the researcher had to deal with consulting and reading numerous documents and words whilst sorting, organising and analysing data and simultaneously interpreting the 'picture' emerging from the data analysis.

As per Neuman (2003), qualitative data analysis, unlike quantitative data, has no exact formulas for analysing qualitative data. Instead, analysing qualitative data requires a lot of subjective judgement and interpretation (Neuman, 2003).

### **3.6. Limitation of the study**

- i) LEDAs and Local Government Working Together for Local Development - this explicitly refers to the tension which has been reported to exist between some host municipalities and LEDAs. This study did not focus on

the tensions (political, etc.) that exist between parent municipalities and LEDAs, as municipal entities;

- ii) Constraints on Action or Frameworks for Accountability – the legal form of the LEDAs has changed since the first agencies were established in the early years of this decade – from Section 21 companies to Pty companies, following the introduction of the Municipal Financial Management Act (MFMA) No. 25 in 2003. The immediate implication in terms of their field and mode of operation had been to tie the agencies into the local government decision making and reporting systems as well as timeframes. These are often seen as slow and cumbersome, particularly in the context of project development, involving private sector partners. The study did not focus on these legislative constraints at length.
- iii) Different LEDAs, Different Mandates - LEDAs set up at local municipality level have access to a greater asset base than exists at district level, given the local municipality's ownership of a more substantial property portfolio. The different mandates for the different LEDAs pose a challenge when engaging in the analysis of their impact on local innovation.
- iv) Some Scenarios for the Future? - There is, of course, undoubted scope for the continued input of strong and effective organisations specialising in enterprise promotion and development. Whether these would continue to operate as “municipality entities” following the withdrawal of IDC beyond the initial three year start-up period – or develop closer links with the provincial institution for enterprise development (Eastern Cape Development Corporation) as suggested earlier – are two such options. Since the study focused on South African LEDAs that are IDC grant-funded over a five-year period, through their development phases – the study did not focus on the impact of these LEDAs on local innovation beyond the five-year IDC grant-funding period.

### **3.7. Confidentiality**

The researcher formally requested and was granted permission to interview, access official documentations, and report on the finding by the management of the

identified five (5) LEDAs, local municipality officials, local stakeholders, and the IDC officials that were part of the study. The study received ethical clearance from the Ethics Committee of the Wits Business School before commencement.

### **3.8. Ethical Considerations**

The researcher does not reveal the identity of participants as well as any confidential information obtained during the study without their permission. Participants were not coerced to take part in the research but their participation was discussed amicably with them.

### **3.9. Summary**

Searching for the best organizational arrangements to promote local innovation has been paramount for local municipal governments and their partners for several decades. The research examined the contribution that has been made by LEDAs, which have proved over the years to be a consistent choice of local government leadership. The LEDA approach has proved to be very popular in a wide range of countries, both developed and developing, and their respective localities. This has been the decision by a wide range of local governments, particularly in developing countries, to place some, or most, of their local economic development activities under the operational control of appropriately regulated and supervised municipal entities - defined as LEDAs, instead of managing them from within a municipal platform. This LEDA approach has been gaining momentum within the South African local government sphere.

This has begun to display, within local government, an acceptance that LED activities are unlike the other roles and responsibilities of local governments. Therefore, LEDAs have been especially suited to 'contested' activities such as locational and investment decisions, or 'collaborative' activities such as multi-party planning and joint ventures. Such economic development interventions need to be delivered by market-like bodies and business-led approaches such as brokerage, marketing, joint ventures, incentives, capitalisation, competitive recruitment (OECD,

2009). Local governments within the South African context have started to realise that local economic development is better delivered through a corporate structure, such as the LEDA, rather than through a municipal structure.

## **4. CHAPTER 4: PRESENTATION AND ANALYSIS OF DATA**

### **4.1. INTRODUCTION**

This chapter focuses on the presentation of data captured emanating from reviewing the documentation of the five LEDAs, including financials reports, audit reports, applications for funders, amongst others; and the respective LEDAs' management and stakeholders responses to the open-ended questionnaires. The questionnaires were divided into two sections, with section A containing questions structured specifically for the management, and Section B structured for various stakeholders of the five LEDAs under review (see Tables 4 and 5).

Furthermore, emanating from the both primary and secondary data presented, this chapter focuses on the strengths of the five (5) LEDAs under review and how these strengths led to their respective successes. Therefore, focus is on the challenges faced by these five (5) LEDAs and how these led to their failures in certain areas of their respective mandate, thus leading to their non-achievement of the goals and objectives. The study endeavours to compare and contrast both successes and failures experienced by the five (5) LEDAs with similar experience by other LEDAs within developed and developing country-contexts. Drawing from OECD LEED (OECD, 2009), the five LEDAs under focus are broadly positioned into four 'types' illustrated below:

- Productivity and Economic Growth Agencies (lead employment, entrepreneurship, and innovation processes) – Enterprise ILembe Development Agency (EIDA);
- Integrated Economic Agencies (integrate a wide range of interventions) – Aspire Development Agency (ADA)
- Visioning and Partnership Agencies (focus on long term strategy making) – Lejweleputswa Development Agency (LDA);
- Development and Revitalisation LEDAs (lead urban redevelopment processes) –UMhlosinga Development Agency (MBDA); and Mandela Bay Development Agency (MBDA).

**Table 3: Questionnaire for LEDA Management**

| <b>Local Economic Development Agency (LEDA)</b>   |                 |
|---|-----------------|
| <b>Statement</b>  | <b>Response</b> |
| In your view, what are the factors that impact on a LEDA's performance?   |                 |
| In your opinion, what are the challenges facing the LEDA?   |                 |
| In your opinion, is the Mandate of LEDAs clear?   |                 |
| Do you believe the LEDAs have enough autonomy to execute on their Mandates?   |                 |
| In your opinion, have the projects/programmes developed by your LEDA been catalytic in unlocking the potential of the area? Success and failure factors |                 |
| In your opinion, how successful has your LEDA been in mobilising the stakeholders?  |                 |
| In your opinion, is your LEDA flexible enough to fulfil its mandate?  |                 |
| In your opinion, how has the legislative framework impacted on LEDAs?   |                 |
| Using your own analysis, what has been the LEDA's greatest achievement? Why? How has this been measured?  |                 |
| What is the level of interaction of your LEDA and other local Institutions?   |                 |

**Table 4: Questionnaire for LEDA Stakeholder/s**

| Local Economic Development Agency – Stakeholder/s  |          |
|--|----------|
| Statement  | Response |
| In your views, what is your understanding of your LEDA’s mandate?  |          |
| In your opinion, what should LEDAs do differently to have greater impact? Why?   |          |
| Describe the perceived relationship between the LEDA and its parent municipality   |          |
| In your own view, what defines a LEDA as being well managed?   |          |
| Does your LEDA collaborate well with other parties who can contribute to the mandate of the agency?                              |          |
| In your view, what should be a LEDA’s mandate within its jurisdiction?   |          |
| In your opinion, have the projects/programmes developed by your LEDA have been catalytic in unlocking the potential of the area? |          |
| In your opinion, how should the effectiveness of the LEDA’s performance be measured?   |          |
| Is the LEDA able to collaborate with other local stakeholders who can contribute to the mandate of the agency?                   |          |
| In your view, have business opportunities improved since the agency started? If yes or no, please elaborate.                     |          |

**Table 5: Responses from both the LEDAs management and stakeholders**

| Respondent                          | Institution                               |
|-------------------------------------|---|
| 1. Executive Municipal Manager      | Lejweleputswa District Municipality (LDM) |
| 2. Senior LED Manager               | Industrial Development Corporation (IDC)  |
| 3. (Acting) Chief Executive Officer | Lejweleputswa Development Agency (LDA)    |
| 4. Chief Operations Officer         | UMhlosinga Development Agency (UMDA)      |
| 5. Chief Operations Officer         | Mandela Bay Development Agency (MBDA)     |
| 6. Chief Operations Officer         | ASPIRE Development Agency (ASPIRE)        |

Responses to both open-ended questionnaires are contained in **Annexure**

## 4.2. ANALYSIS AND INTERPRETATION

From the study findings and interpretations the following conclusion can be made: In this research, the role of LEDAs in supporting local innovation is examined, based on a detailed analysis of five (5) LEDAs spread throughout the nine (9) provinces of South Africa, the responses from the semi-structured questionnaires, as well as drawing from the OECD LEED work on Development Agency reviews (OECD, 2009). The key focus is on attempting to distil why LEDAs are set up and work; what they can achieve and what tools they require; how LEDAs work within wider local development systems; and what can go wrong or need attention if success is to be assured. This study addresses some fundamental questions on how LEDAs work.

The analysis suggests it is now important to move beyond reflecting on the role of individual LEDAs and look more into the coherence and efficiency of how all the relevant bodies in a locality work together in a 'local innovation system' (LIS). Too often, it appears that there may be an expectation that a LEDA can succeed 'on its own' rather than by working within a system that also delivers effective infrastructure, public services, land use planning, education, and housing. It is a key observation in this study that the most effective LEDAs operate within well designed and coordinated local innovation systems. The implication for local and national governments is that the system of organisations must be well managed and integrated, not just the LEDAs alone.

It is also evident from the study that there is still far too much competition between levels of government including district and local municipalities, and between these municipalities and provinces. Again, there is inadequate involvement of the private sector in supporting local innovation within the LEDA environment. Therefore, the need for partnership formation; and growth coalitions need to be encouraged within local government. Furthermore, the non-governmental organisations (NGO), where they exist in significant strength, need to be encouraged to contribute more meaningfully to local economic development. They should be supported and encouraged to engage in collaborative programmes with the LEDAs as means of

supporting local innovation (Rogerson, 2006). Considerable emphasis should be placed on 'developmental local government', increasing the role of LEDAs in promoting growth and development, thus entrenching an essentially pro-poor policy focus within South Africa (RSA, 1998a).

### **4.3. STRENGTHS OF LEDAs**

Stemming from the data gathered from the five (5) LEDAs reviewed, which include the primary data and documentation forwarded to the IDC by these LEDAs, the following issues have been identified as impacting positively on the functions and operations of LEDAs:

- Commitment from internal role-players and stakeholders (both political and administrative) to make the LEDA a success in term of its local economic development mandate;
- A strong, multi-disciplinary and multi-functional board;
- Strong attempts to remain unbiased and apolitical as a development body;
- Pro-active and strong intergovernmental relationships, at a high level, with local and district government structures as well as strong intergovernmental relationships with provincial and national government departments who are focused on economic development and growth. This type of relationship management is aimed at a supportive, confident and co-operative working environment;
- Political support and buy-in which is distinguished from political interference;
- A focus on macro projects;
- Innovative LEDAs and those with innovative projects have an economic/development edge;
- LEDAs acting as the "critical link" between the private and the public sector to enhance investment and create a more "user-friendly" investor environment;

- Visible project roll-out – this builds confidence in the LEDA from the perspective of communities who see and experience the actual change through economic and development initiatives.

#### **4.4. CHALLENGES FACED BY LEDAs**

Emanating from the same data gathered from the five (5) LEDAs reviewed, the following issues have been identified as having a negative impact on the functions and operations of the LEDAs:

- Lack of engagement with the private sector – especially chambers of commerce and industry in the areas in which the LEDAs operate;
- Political interference in the functioning and operation of LEDAs – tensions within the parent municipality as to where the priorities lie;
- Lack of trust and lack of operational independence for LEDAs outside the realm of municipal policy and procedure
- Lack of staff and resource constraints within LEDAs – in certain instances, LEDAs still do not have CEO's or have had a number of CEO's in so many years (on average the development agencies that took part in this research had four staff members).
- Financial uncertainty and viability of LEDAs leads to staff uncertainty about their future and their packages as opposed to full-time government employees who benefit from pension, medical aid, etc. This impacts directly and indirectly on human capital retention;
- Size of geographic area that the LEDA has to cover means that whatever impact they have will be offset by the socio-economic needs and requirements of the entire area;
- Administrative and functional issues relating to project funding, internal human capital retention and micro-management by the LEDA's board
- Red-tape and bureaucracy from local, district and provincial government departments between the time of the announcement of an economic development intervention and the actual implementation of the project –

this leads to a loss of confidence in the LEDA by the intended beneficiaries and a further lack of co-operation and support from stakeholders when later economic opportunities are identified;

- Municipal regulations impacting on LEDA implementation and the inability to negotiate around economic development priorities, e.g. town planning regulations.

#### **4.5. COMPARATIVE ANALYSIS**

Taking from the outcome of the study on the five (5) IDC-funded LEDAs, it is evident that there is confidence in the LEDA model across the local municipalities under which these LEDAs belong. This seems to be pertinent in most developing countries, as is also the case in OECD countries. Research further proves that historically, numerous developed and developing countries have opted to use the LEDA models as a preferred vehicle to implement local economic development at local and district municipality levels. However, for all LEDAs, there is a primary need to first define what value the LEDA will add, with clear goals and roles for its locality, before it is established.

It should be noted that LEDAs operate within LIS comprising many organisations which have to be carefully co-ordinated and systemically organised. Therefore, for LEDAs to be successful, they should have the ability to either aggregate different initiatives for them to achieve scale and mass or they should focus solely on niche interventions which can be delivered with efficiency. However, in both instances, LEDAs need to be constantly engaging with organisations with which they can enter into collaborative efforts.

As with the IDC-funded LEDAs, there is a need for regular reviews of LEDAs. Monthly and quarterly reports and annual assessments are probably appropriate tools for in-depth assessments of LEDA performance. This means that there is a need for guidance for local governments on how to effectively sponsor, monitor and evaluate LEDAs. This should be done within the ambit of giving LEDAs the substantial operational freedom required.

The comparative analysis of LEDAs has revealed that successful LEDAs diversify income streams and support cross-funded activities. This dictates that LEDAs should be structured as vehicles that multiple stakeholders within local innovation systems are comfortable investing in. Therefore, it is paramount that LEDAs seek and secure a mix of funding and resourcing from various funders and stakeholders.

#### **4.6. CONCLUSION**

The comparative analysis does not focus only on the LEDA in isolation, but focuses on the coherence and efficiency of how all the relevant institutions and formations in a locality work together in an LIS. There is a tendency in the economic development arena to expect that a LEDA should succeed 'on its own' rather than by working within an LIS. This study has observed that, for LEDAs to be effective, they should operate within the well designed and co-ordinated local innovation systems. This implies that the system of organisations for local governments must be well managed and integrated. This requirement must not be placed on LEDAs alone.

## **5. CHAPTER 5: CONCLUSION, RECOMMENDATIONS AND IMPLICATIONS**

### **5.1. INTRODUCTION**

Recommendations for improving the role of LEDAs in supporting local innovation are detailed in this chapter. The chapter provides the conclusion, which highlights the 'golden-thread' critical for the success of LEDAs, and also emphasises the importance of sustainability at the core of LEDAs' continued existence beyond the grant-funding phase from funders such as the IDC. The chapter further provides recommendations for further research on the role that LEDAs can play in supporting local innovation.

### **5.2. CONCLUSION**

#### **5.2.1. Successes**

It can be concluded from the findings mentioned in Chapter 4 that there is a 'golden-thread' that is characteristic of the five (5) LEDAs discussed in the study. This 'golden-thread' serves as a recommendation for LEDAs to adopt for them to be successful in achieving their mandates. This 'golden-thread' comprises the following:

- All five (5) LEDAs reviewed displayed a high degree of relationship management with key government departments;
- All five (5) LEDAs profiled have strong independent and multi-disciplinary boards, which is key to creating an operational and functional environment;
- The majority of the five (5) LEDAs reviewed displayed a high degree of efficient and effective leadership emanating from their respective management teams, and this is reflected in the attitudes, commitment and work ethic of the LEDA's human capital;

- Owing to the IDC's Agency Development and Support (ADS) department's requirements for compliance and reporting, all the LEDAs have established strong internal management and control mechanisms. This has led to operational efficiency and sound financial management factors that have earned these LEDAs accolades from audit bodies;
- Given the LEDAs' mandate of leveraging development funding, the five (5) reviewed LEDAs were successful in leveraging local assets to promote and grow economic development within their respective jurisdictions.

### **5.2.2. Sustainability**

From the above-mentioned findings, it must be kept in mind that the mandate of these LEDAs is economic development in terms of job creation, SMME development and business expansion and retention will not be visible in the short-term. Economic development is a medium to long-term achievement where visible results will only be seen in a 10 to 15-year time frame. As such, it is important to remember that, in an ideal situation, the ADS programme will support and fund a development agency for a period of five years, thereafter, the LEDA is expected to be self-sufficient. Within this context, there must be realistic expectations with regards to the achievements and impact of the LEDAs.

On the issue of LEDA sustainability, this report makes the following key conclusions:

- LEDAs have a strong role to play in developing communities in which they operate;
- With regard to LEDA effectiveness, the research has shown these to be relevant, efficient and to have a degree of impact. However, there is a need for further research on the overall effectiveness of LEDAs in relation to developmental goals, and their sustainability, post the withdrawal of grant-funding from funders such as the IDC;
- LEDAs are performing well in terms of leveraging government funding and government assets for local economic development;

- Even though LEDAs have very good relations with government and quasi-government departments and bodies, there is still significant room for improvement of relations between these entities and organised business structures, such as chambers of commerce and industry;
- Political influence or interference over functioning and operations of LEDAs is evident. How to possibly prevent and/or manage this, remains a challenge with which a number of LEDAs are grappling;
- LEDAs prefer to concentrate on established and existing industries and economic sectors in their respective areas. There is little evidence of general economic diversification, value chain and cluster development, innovation and small and medium business development amongst the five (5) LEDAs reviewed, with the exceptions being Enterprise ILembe Development and Mandela Bay Development Agencies;
- LEDAs have missed an opportunity for collaboration and sharing of knowledge and information, especially around common areas of financial management, external risk assessment, and marketing opportunities;
- While all LEDAs under review have business plans that articulate their vision and mission, they are less specific as to their strategic options by taking into account externalities and changing environmental and socio-economic factors. This, in turn, makes strategic communication more difficult and could be the reason that communication was seen as a major barrier to the effectiveness of these LEDAs;
- In various cases, LEDAs would appear to confuse stakeholders and “customers,” with the result that acceptable outcomes are better relationships with the municipality or business associations rather than the focus on the real customers, who are the people within the community who are/or have been excluded from economic opportunity.

### 5.3. POLICY RECOMMENDATIONS FOR LEDAs

Based on this study, the following are the four key recommendations on how to proceed with the regulation of the establishment and operation of LEDAs in South Africa. These recommendations are by no means conclusive on providing regulatory and policy improvements that need to be instituted and enforced within the LEDA context:

1. Legislation has unintended effects on LEDAs which preclude their successful operation in many respects. Consideration therefore needs to be given to the legislation surrounding funding of LEDAs, and to their being exempted from current restrictions of the MFMA.

Serious consideration needs to be given to the need to establish a LEDA. In some areas, the presence or potential for a large scale catalytic project may necessitate an alternative programme.

2. The mobilising of resources beyond the capability of the municipality, such as in Nelson Mandela Bay. In this case, a LEDA can be invaluable in drawing together different role-players and resources for major investments. It is important that LEDAs are not developed as a possible panacea to economic development problems. A LEDA is only justified if there are a significant number of projects that need to be managed beyond the capacity of the municipality.

3. A one type fits all approach is not usually appropriate – the structure and function of the LEDA needs to vary according to local circumstances. The LEDA needs to be attuned, in terms of its structure and functions, to local conditions and needs. This is clearly brought out in a comparison between the five LEDAs identified under this study, that is, Enterprise ILembe; Aspire; Lejweleputswa; uMhlosinga and Mandela Bay.

4. Emanating from the study of the five (5) LEDAs, it is evident that there is still competition between levels of government including local and district

municipalities, and between these municipalities and provinces in terms of both the interpretation and delivery of LED. Furthermore, there is inadequate involvement of the private sector in the strategies of LEDAs in supporting local innovation. Therefore, there still exists an opportunity to forge partnership formation/ growth coalitions between local government, the private sector, the academic and research institutes, the informal business sector, and non-profit sector, where they exist in significant strength, to contribute more meaningfully to local economic development (Rogerson, 2000).

#### **5.4. IMPLICATIONS FOR POLICY-MAKERS**

There is still scope for further research on the role that LEDAs can play in supporting local innovation (LI) within the context of LED.

The study emphasises the need to move beyond reflecting on the role of individual LEDAs and companies and look more into the coherence and efficiency of how all the relevant bodies in a locality work together in a 'local development system'. More often there is an expectation that a LEDA can succeed 'on its own' rather than by working within a system that also delivers effective infrastructure, public services, land use planning, education, and housing. The study highlights the point that the most effective LEDAs operate within the well designed and co-ordinated local development systems. The implication for policy makers, within local and national governments, is that the system of organisations must be well managed and integrated, not just the LEDAs alone.

Since local economies respond best to integrated approaches that combine physical, social, economic, and environmental interventions, and these are activities where responsibility is usually widely dispersed amongst a range of bodies and authorities, it is critical that there is effective leadership both within the LEDAs and within the wider range of bodies to achieve co-ordination. This is due to the fact that leadership overcomes institutional rigidities and gaps in mandates by fostering an integrated

vision and collaborative organisations. Therefore, the possible absence of leadership in local government, in the business community of a locality, and in the LEDAs themselves would make an integrated approach and public confidence very difficult to achieve and sustain.

The study further highlights challenges that LEDAs have to contend with if they are to achieve their respective mandates. This has to do with LEDAs attaining the right balance between operational freedom or agility and the need for effective policy/strategy leadership and supervision from their parent municipalities involved. In spite of the widespread acceptance within local governments of the need to pursue active economic development policies, it is not immediately apparent to the local citizenry of what is appropriate local economic development activity or investment. Therefore, policy-makers should invest in engaging local stakeholders in the collective building of social capital that will contribute in enhancing effective LIS.

Within the South African context, there is a dire necessity to develop clear national guidelines and regulatory frameworks for the establishment of LEDAs based on international and national best practice to deal with LEDAs. Therefore, these national policy guidelines need to outline under what circumstances a LEDA is likely to be desirable, spell out roles and responsibilities of the different stakeholders, and detail institutional arrangements for co-ordination, accountability and reporting relationships and management procedures. For the country to be able to deal effectively with the proliferation of LEDAs and to ensure that they are effective, the Department of Trade and Industry (dti) needs to develop a policy position to promote best practice. Notwithstanding this fact, the Department of Co-operative Government (DCoG) has developed a fairly extensive set of guidelines related to the more internal issues of establishment. However, this assumes that LEDAs will be driven by municipalities (Xaba, 2009).

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## Appendix A

### QUESTIONNAIRE

#### (UMDA Development Agency)

| Local Economic Development Agency (LEDA) |   |  |
|--|---|--|
|  | Statement   | Response   |
| 1.                                       | In your view, what are the factors that impact on a LEDA's performance?   | Leadership, skilled personnel, Performance, vision and funding   |
| 2.                                       | In your opinion, what are the challenges facing the LEDA?   | Funding  |
| 3.                                       | In your opinion, is the Mandate of LEDA's clear?  | Yes  |
| 4.                                       | Do you believe the LEDA's have enough autonomy to execute on their Mandates?  | No quite. They need enough autonomy to engage in profitable dealings with business                                       |
| 5.                                       | In your opinion, have the projects/programmes developed by your LEDA been catalytic in unlocking the potential of the area? Success and failure factors | We have had a number of catalytic projects on our desks but have not been successfully implemented due to lack of skills |
| 6.                                       | In your opinion, how successful has your LEDA been in mobilising the stakeholders?  | There is unprecedented support from stakeholders   |
| 7.                                       | In your opinion, is your LEDA flexible enough to fulfil its mandate?  | Yes I think so.  |

|     |  |   |
|-----|--|---|
| 8.  | In your opinion, how has the legislative framework impacted on LEDAs?                                    | There is a need to amend the Municipal Systems Act and the MFMA   |
| 9.  | Using your own analysis, what has been the LEDA's greatest achievement? Why? How has this been measured? | We have been involved in a project that has created 800 sustainable full time jobs. The success is measured through the jobs created, the participation of other stakeholders and sustainability of the project |
| 10. | What is the level of interaction of your LEDA and other local Institutions?                              | Its Poor but we have begun a process of engaging local municipalities, regional offices of provincial departments and local parastatals   |

**QUESTIONNAIRE**  
**(Lejweleputswa District Municipality)**

| <b>Local Economic Development Agency (LEDA) – Stakeholder/s</b> |  |   |
|---|--|---|
|   | <b>Statement</b>   | <b>Response</b>   |
| <b>1.</b>   | In your views, what is your understanding of your LEDA's mandate?                | It is the Municipality's entity mandated to drive Local Economic Development within Lejweleputswa District  |
| <b>2.</b>   | In your opinion, what should LEDAs do differently to have greater impact? Why?   | The Agency should serve as a link between local government, business, academic and Research & Development (R&D) institutes and local communities in driving local innovation  |
| <b>3.</b>   | Describe the perceived relationship between the LEDA and its parent municipality | Given that the LEDA is 100% owned by the District municipality, it has been part of the municipality's budget since inception. In terms of the MFMA and MSA, the agency reports directly to the municipality in terms of its operations. The relationship is beneficial to both institutions thus far |
| <b>4.</b>   | In your own view, what defines a LEDA as being well managed?                     | A well-managed LEDA should be legally structured, that is, having a functional Board, a competent CEO and human capital. It must also have a clear mandate from the parent municipality.  |

|                  |   |   |
|------------------|---|---|
| <p><b>5.</b></p> | <p>Does your LEDA collaborate well with other parties who can contribute to the mandate of the agency?</p>                              | <p>Thus far the LEDA is doing well in collaborating with relevant stakeholders within the district. However, there is more that needs to be done in this regard, particularly the fostering of profitable relationships with the local business chambers and sector</p>   |
| <p><b>6.</b></p> | <p>In your view, what should be a LEDA's mandate within its jurisdiction?</p>   | <p>Local Economic Development (LED); building Social Capital; and serving as a link between all the local stakeholders within the district</p>  |
| <p><b>7.</b></p> | <p>In your opinion, have the projects/programmes developed by your LEDA have been catalytic in unlocking the potential of the area?</p> | <p>Even though the LEDA is at the First Operational Phase of funding, there are important milestones achieved, particularly in conducting feasibility studies on identified projects. The LEDA is now in the process of implementing on some of the catalytic projects which are envisaged to unlock economic potential of the district</p> |
| <p><b>8.</b></p> | <p>In your opinion, how should the effectiveness of the LEDA's performance be measured?</p>   | <p>For every project under the LEDA's leadership there are milestones to be achieved. Therefore, periodically both milestone and financial audits should be conducted on the LEDA.</p>  |

|                   |   |   |
|-------------------|---|---|
| <p><b>9.</b></p>  | <p>Is the LEDA able to collaborate with other local stakeholders who can contribute to the mandate of the agency?</p> | <p>Thus far the LEDA has implemented various measures in its endeavour to collaborate with other stakeholders. The LEDA has hosted economic summits whereby all the relevant stakeholders and communities were invited to discuss the state of the district so as to carve a united strategy for Lejweleputswa. More of such initiatives are needed to be driven by the LEDA as the mandated economic driver in the district.</p> |
| <p><b>10.</b></p> | <p>In your view, have business opportunities improved since the agency started? If yes or no, please elaborate.</p>   | <p>Yes. For instance local mining houses, given that Lejweleputswa is a predominantly mining district, have begun to partner with the LEDA in deploying their Skills Labour Plans (SLPs). This was not happening in the past prior the establishment of the LEDA in Lejweleputswa.</p>  |

## QUESTIONNAIRE

### (ASPIRE Development Agency)

| Local Economic Development Agency (LEDA) – Stakeholder/s |  |  |
|--|--|--|
|  | Statement  | Response   |
| 1.   | In your views, what is your understanding of your LEDA's mandate?                | It is a special purpose vehicle used by Municipality to drive their Local Economic Development agenda based on sound principles and values in order to achieve their LED objectives in communities they are serving      |
| 2.   | In your opinion, what should LEDAs do differently to have greater impact? Why?   | They should focus on development and operate freely and away from political influence. Political Influence kills the very objective these LEDA were set for  |
| 3.   | Describe the perceived relationship between the LEDA and its parent municipality | The LEDA's are 100% owned by the Municipalities and are fully accountable to the Municipality  |
| 4.   | In your own view, what defines a LEDA as being well managed?                     | Having its own competent Board and operating efficiently and effectively with a sound Accounting officer as its Executive director. The LEDA should be sound in Governance and be fully compliant with the MFMA and PFMA |
| 5.   | Does your LEDA collaborate well with other                                       | Yes the Agency   |

|            |  |   |
|------------|--|---|
|            | parties who can contribute to the mandate of the agency?   | collaborates well with other parties and has competent staff.   |
| <b>6.</b>  | In your view, what should be a LEDA's mandate within its jurisdiction?   | Social Impact and Developmental objectives  |
| <b>7.</b>  | In your opinion, have the projects/programmes developed by your LEDA have been catalytic in unlocking the potential of the area? | Yes, through its project entrepreneurs were created, jobs and SMME development was achieved   |
| <b>8.</b>  | In your opinion, how should the effectiveness of the LEDA's performance be measured?   | By the milestone achieved and the impact it has made in the community it serves. Most importantly the self-sustainability of the Agency financially and otherwise is a reflection of its success and performance. |
| <b>9.</b>  | Is the LEDA able to collaborate with other local stakeholders who can contribute to the mandate of the agency?                   | Yes, this has been demonstrated by the partnerships that has been formed to date.   |
| <b>10.</b> | In your view, have business opportunities improved since the agency started? If yes or no, please elaborate.                     | Yes, platforms and forums created are evident to that.  |

## QUESTIONNAIRE

### (Industrial Development Corporation - IDC)

| Local Economic Development Agency (LEDA) – Stakeholder/s |   |  |
|--|---|--|
|  | Statement   | Response   |
| 1.   | In your views, what is your understanding of your LEDA's mandate?                                   | LEDAs are established to implement economic development projects within the Local Authority  |
| 2.   | In your opinion, what should LEDAs do differently to have greater impact? Why?                      | LEDAs should implement specific Municipalities Planned Projects. They should assist with Investment Promotion. They should help with economic projects planning within Municipalities. They should also appoint BOD members who have fulltime professions themselves and only just want to serve on BOD and not for self-enrichment. |
| 3.   | Describe the perceived relationship between the LEDA and its parent municipality                    | Must be watertight. Both parties should plan together. Budgets of Municipality for Economic Development should be given to the LEDA. Reporting between the two should be strengthened. Economic Development Projects of LEDAs should always be complimented by Infrastructure Projects of Municipality                               |
| 4.   | In your own view, what defines a LEDA as being well managed?  | Strong Governance. Unselfish and well trained BOD. Consistent Oversight from the Municipality. Stable Executive Management. Adherence to the MFMA, Systems Act and Corporate Governance King 111   |
| 5.   | Does your LEDA collaborate well with other parties who can contribute to the mandate of the agency? | Not really. More could be achieved if stability of the organisation can be maintained.<br><br>Consistent and frequent recognition of the contribution of funders is important. Demonstrate value for money for funders in order to encourage them to fund more projects  |
| 6.   | In your view, what should be a LEDA's mandate within its jurisdiction?                              | Implement Economic Development Projects. Promote Investments into the Region. Market the Region and its Competitive Advantages   |

|     |  |   |
|-----|--|---|
| 7.  | In your opinion, have the projects/programmes developed by your LEDA have been catalytic in unlocking the potential of the area? | Yes they have.  |
| 8.  | In your opinion, how should the effectiveness of the LEDA's performance be measured?   | <p>The number of people employed through the projects being implemented. Percentage decrease in poverty in the Region. Contribution of the Region to the Provincial GDP. Measuring the multiplier Effect of the project beneficiaries.</p> <p>Compute the relevant statistics on benefiting youth, women and people with disabilities</p> |
| 9.  | Is the LEDA able to collaborate with other local stakeholders who can contribute to the mandate of the agency?                   | Not really.   |
| 10. | In your view, have business opportunities improved since the agency started? If yes or no, please elaborate.                     | A lot of business opportunities emanated when our LEDA implemented the Small Towns Regeneration Projects. However, those opportunities died when the projects were completed. There needs to be sustainability in projects so as to consistently create job opportunities   |

## QUESTIONNAIRE

### (Mandela Bay Development Agency)

| <b>Local Economic Development Agency (LEDA) – Stakeholder/s</b>   |  |
|---|--|
| <b>Statement</b>  | <b>Response</b>  |
| 1.<br><br>In your views, what is your understanding of your LEDA's mandate?                                   | LEDA is a specialist vehicle, organised according to sound business practices, through which the government can effectively and efficiently intervene and participate in the economic activities of the country with a view to achieving its objectives            |
| 2.<br><br>In your opinion, what should LEDAs do differently to have greater impact? Why?                      | To operate free of political influence, and focus on social impact projects.   |
| 3.<br><br>Describe the perceived relationship between the LEDA and its parent municipality                    | The municipality has a strong holding on decision making of LEDA   |
| 4.<br><br>In your own view, what defines a LEDA as being well managed?  | Though complying with PFMA and MFA; municipality should stay independent of LEDA. The board of directors and non-executive should not be government nor politically affiliated. LEDA should run like private sector companies with main mission to develop locals. |
| 5.<br><br>Does your LEDA collaborate well with other parties who can contribute to the mandate of the agency? | Yes. Our LEDA is operated by qualified and professional staff and therefore all operations are treated professionally. We conform to all the laws and regulations that govern us.  |
| 6.<br><br>In your view, what should be a LEDA's mandate within its jurisdiction?                              | Social Impact Investment   |

|     |  |  |
|-----|--|--|
| 7.  | In your opinion, have the projects/programmes developed by your LEDA have been catalytic in unlocking the potential of the area? | Yes. The projects like infrastructure improvement/ development have created opportunities for small businesses to trade, therefore escalating entrepreneurship   |
| 8.  | In your opinion, how should the effectiveness of the LEDA's performance be measured?   | Though financial returns are important (because LEDA should sustain itself at some point and not rely solely on funders and municipal funding); Social Return on Investment (SROI) is vital. SROI measures change in ways that are relevant to the people or organisations that experience or contribute to it. It tells the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated. For example, a ratio of 3:1 indicates that an investment of R1 delivers R3 of social value. |
| 9.  | Is the LEDA able to collaborate with other local stakeholders who can contribute to the mandate of the agency?                   | Yes. LEDA is based at the heart of local stakeholders; this makes it easy for LEDA to compile input from the local stakeholders as they are easily reachable and are in constant communication with LEDA   |
| 10. | In your view, have business opportunities improved since the agency started? If yes or no, please elaborate.                     | Yes.   |

## QUESTIONNAIRE

(Lejweleputswa Development Agency )

| Local Economic Development Agency (LEDA) |   |   |
|--|---|---|
|  | Statement   | Response  |
| 1.                                       | In your view, what are the factors that impact on a LEDA's performance?   | <ul style="list-style-type: none"> <li>• Political buying</li> <li>• resources land</li> </ul>              |
| 2.                                       | In your opinion, what are the challenges facing the LEDA?   | In stability from the parental body e.g. change of politicals   |
| 3.                                       | In your opinion, is the Mandate of LEDA's clear?  | Yes, I further think this mandates must be align to National Government                                     |
| 4.                                       | Do you believe the LEDA's have enough autonomy to execute on their Mandates?  | Yes   |
| 5.                                       | In your opinion, have the projects/programmes developed by your LEDA been catalytic in unlocking the potential of the area? Success and failure factors | Yes, Successfully competition of study in time and all Projects are bankable. Failure :no political support |
| 6.                                       | In your opinion, how successful has your LEDA been in mobilising the stakeholders?  | We established the LED forum which assist I sharing ideas and align planning                                |

|     |  |   |
|-----|--|---|
| 7.  | In your opinion, is your LEDA flexible enough to fulfil its mandate?                                     | Yes   |
| 8.  | In your opinion, how has the legislative framework impacted on LEDAs?                                    | Yes, some projects need land, therefore Parental body take time before resolved in supporting of Project (e.g) land |
| W9. | Using your own analysis, what has been the LEDA's greatest achievement? Why? How has this been measured? | Sound financial Management and our measured tool is AC  |
| 10. | What is the level of interaction of your LEDA and other local Institutions?                              | Very interactive with local municipalities and other institution through the LED forum                              |

**Appendix B  
(Example of a LEDA's Application to the IDC for grant-funding)**

**Industrial Development Corporation (IDC)**

**Agency Development & Support Steering Committee:**

**Lejweleputswa Development Agency (LDA), Free State Province**

**CURRENT APPROVAL**

Phase: Pre-Est.: R 607,000.00

Phase: Establishment: R2, 647,959.00

Phase: 1st Operational: R5 839 459.00

**THIS APPLICATION :** R 5 659 908.00

Phase: 2nd Operational

**TOTAL APPROVAL** **R 14 754 326.00**

**FUNDING PROPOSAL**

| <b><u>Facility</u></b>                       | <b><u>Grant</u></b>   |
|--|---|
| Repayment terms                              | None  |
| Purpose of facility / application of finance | To provide Operational Phase 1 funding  |
| Existing BP                                  | Yes   |
| Milestone record                             | The agency has met all the required establishment phase milestones.   |
| Lender                                       | IDC, ADS  |
| Institutional Support                        | The municipality has provided R2, 500,000.00 funding to the agency for this phase in its 2015/16 FY budget. |
|  |   |
| Impact on IDC limits                         | None  |

## **1. EXECUTIVE SUMMARY**

The Lejweleputswa District is situated north of Mangaung Municipality in the Free State Province. The geographic area of the Lejweleputswa District Municipality is an economic landscape dominated by mining and agriculture sectors, which is evident in the area's population density. The district comprises of a high-density urban area focusing on the mining sector, and the surrounding low-density rural agriculture sector. However, both the agriculture and mining sectors are national and are experiencing negative growth rates throughout the district. This is due to the ongoing restructuring process in the mining sector, with severe implications on the urban areas, leading to unemployment, retrenchments, high incidence of poverty and indigence, and the ongoing migration of the mining headquarters to other provinces. The climatic conditions in the district are a major contributing factor to negative growth, such as drought, and the general market conditions for primary agricultural products. This district lacks diversification in the agricultural sector and has limited industrial and manufacturing sectors for further processing.

### **1.1 Applicant/Participants**

Lejweleputswa District Municipality has been established in terms of section 14 of the Local Government: Municipal Structures Act, Act No 117 of 1998 and was published in the Provincial Gazette No 109 dated 28 September 2000 and came into being on 06 December 2000.

The Lejweleputswa District Municipality area is situated in the north western part of the Free State and borders North West to the north; Fezile Dabi and Thabo Mofutsanyane to the north east and east respectively; Motheo and Xhariep to the south; and the Northern Cape to the west. Lejweleputswa District Municipality is situated north of Mangaung Municipality in the Free State Province and is accessible from Johannesburg, Cape Town, Klerksdorp and Kimberley through one of the main country's national roads, N1.

The district has the second largest area in the Free State province with 24, 3%. It consists of the following five local municipalities with 18 as an aggregated number of towns distributed within the five local municipalities as follows: Masilonyana; Tokologo; Tswelopele; Matjhabeng; and Nala.

## 1.2 Application / Deal Outline

The LDA and its partners should endeavour to deliver a range of projects and programmes aimed at creating jobs and wealth for the Lejweleputswa and its citizens. This focus sets the LDM apart from other development initiatives, and ensures that the LDA adds value by linking effects, integrating services to projects and programmes, and thereby achieving efficiencies. The following are the Catalytic Projects identified by the LDA in ensuring that the Lejweleputswa communities have access to income and other benefits that will indeed contribute to the improvement of their quality of life:

## 2. PROJECTS

### 2.1 SOLAR-POWER GENERATION PLANT

| <b>PROJECT NAME</b>                              | <b>SOLAR POWER GENERATION PLANT</b>   |
|--|---|
| Objectives                                       | To have alternative energy supply and assist the municipality in getting alternative energy and reducing the load on Eskom.   |
| Description and background of Project (Synopsis) | A Pre-feasibility study and project plan were commissioned. A feasibility study and the EIAs and all necessary reports must be developed to take the project forward in the 2012/2013 financial year.                                     |
| Location   | Matjhabeng and Ventersburg  |
| Spatial Positives (suitability and resources)    | The pre-feasibility study has shown that the project has the potential and that it can be used also as a centre for research and learning through collaboration with the local FET College and Central University of Technology. The idea |

|                       |   |
|-----------------------|---|
|                       | would be to use various methods of solar energy generation which would be the first pilot of such a plant in South Africa.  |
| Ownership/Involvement | <ul style="list-style-type: none"> <li>• Department of Energy (Free State)</li> <li>• Matjhabeng Local Municipality</li> <li>• IDC</li> <li>• NERSA</li> </ul>  |
| Timeframes            | November 2012 – June 2013   |
| Budget (Feasibility)  | <p>Through possible joint venture initiatives a similar feasibility study exists which need to be mapped to the pre-feasibility and then further studies need to be embarked on.</p> <p>November 2012</p> |
| <b>Budget</b>         | <b>R 700 000.00</b>   |

## 2.2 INFORMATION TECHNOLOGY

| PROJECT NAME                                     | VISUAL PRIVATE NETWORK  |
|--|---|
| Objectives                                       | To develop and enhance broad band in the district by improving ICT and ensuring that it reaches all communities including rural communities in the district.  |
| Description and background of Project (Synopsis) | A Feasibility study has been done, currently we are developing business plans and financial models were commissioned. We want to take advantage of the fact that the roll out of broadband is passing through our area. |
| Location   | Matjhabeng  |
| Spatial Positives (suitability and resources)    | Feasibility has been commissioned and it shows that it will reduce the cost of telecommunication with at least 30% in our region. We need to establish the infrastructure for this project.                             |
| Ownership/Involvement                            | <ul style="list-style-type: none"> <li>• Department of Economic Affairs (FS)</li> <li>• District Municipality</li> <li>• IDC</li> <li>• BroadBand Infraco</li> </ul>  |
| Timeframes                                       | Estimated 1-2 Years   |
| <b>Budget</b>                                    | <b>R1000,000.00</b>   |

## 2.3 TOURISM

| PROJECT NAME                                     | UTILIZATION AND REHABILITATION OF EXISTING INFRASTRUCTURE FOR TOURISM   |
|--|---|
| Objectives                                       | <p>To promote tourism within the district</p> <p>To ensure that tourism contributes to the economic sustainability of the district</p> <p>To promote value-added game farming</p> <p>To encourage the development and utilization of existing assets within the district</p>  |
| Description and background of Project (Synopsis) | <p>Investigate the possibility of a PPP on:</p> <ul style="list-style-type: none"> <li>• The Soetdoring Nature Reserve and Resort</li> <li>• The Sandveld nature Reserve and Resort</li> <li>• Florisbad National Quaternary Research Station (National Research Station) and natural sulphar springs</li> </ul>  |
| Location   | Tokologo, Masilonyana and Tswelopele  |
| Spatial Positives (suitability and resources)    | <p>Tokologo, Masilonyana and Tswelopele have assets that are known for their game farming potential. These assets are currently under the ownership of the respective municipalities. There is a need to create a public, private partnership to operate and manage these game farms. These projects have major tourism spin-offs that can be linked to the tourism project. The Soetdoring Nature reserve and Resort will complement the game farming project as it offers game viewing, picnic spots, canoe routes, camping, bird-watching and angling.</p> |
| Ownership/Involvement                            | <ul style="list-style-type: none"> <li>• IDC</li> </ul>   |

|            |  |
|------------|--|
|            | <ul style="list-style-type: none"> <li>• Department of Tourism</li> <li>• Local LED Departments</li> </ul> |
| Timeframes | 12 Months  |
| Budget     | <b>R500 000.00</b>   |

## 2.4 FILM STUDIO

| PROJECT NAME                                     |   |
|--|---|
| Objectives                                       | <p>To establish an international Television and Film Studio facility for the production of local and international feature films, television series and other productions.</p> <p>To train locally based students in the various departments within the film and television industry through TAFTA (Television and Film Training Academy)</p> |
| Description and background of Project (Synopsis) | The concept began eight years ago and evolved into a fully-fledged film and television studio facility. New Vision Film Studio Pty LTD was established in 2013 when the directors met while working on a Mixed Use development project in Mahikeng.   |
| Location   | Welkom, Majthabeng  |
| Spatial Positives (suitability and resources)    | The studio facility is situated on 700 hectares of land, which was once a thriving gold mine.   |

|                       |   |
|-----------------------|---|
|                       | <p>Harmony Gold Mining Company as part of their social responsibility has provided the land to New Vision Studios.</p> <p>The land is situated next to the industrial area in Welkom, which provides support to the mining industry and would provide the much-required support (in the form of engineering supplies and labor) to the studio facility. There is very minimal noise interference of any kind, beautiful landscapes (including an African savannah and pine forest) and situated next to the studio facility is the Oppenheimer 18 hole golf course and a large storm water dam.</p> |
| Ownership/Involvement | <p>Four directors, 51% Back owned. In partnership with local &amp; district Municipalities (Matjhabeng &amp; Lejweleputswa) through LDA; Lejweleputswa District Municipality - Local Economic Development project; Free State Provincial Government through dept Sport, Arts and Culture; Harmony Gold Mining Company (Social Labor Plan and Rehabilitation Plan) Department of Trade and Industry (SEZ-Cluster Development); Revitalization of Distressed Mining Towns</p>   |
| Timeframes            | 12 Months   |
| <b>Budget</b>         | <b>R 1, 000,000.00</b>  |

### 3. MILESTONES DOCUMENTS

#### 3.1 OPERATIONAL PHASE MILESTONES (1<sup>ST</sup> PHASE)

| Milestone  | Timeframe  |
|--|--|
| Re-appointment of the Board and key personnel                                  | March 2014<br>(Done – CEO position outstanding)  |
| Project Management Plan (PMP):<br>Operational Phase 1-3                        | March 2014<br>(Done: SDBIP - Service Delivery Budget Implementation)   |
| Implementation of PMP  | April – Nov. 2014<br>(on-going)  |
| Identify and secure income generating opportunities for sustainability         | (On-going)   |
| Establish firm links with LED Role players for new projects                    | May 2014<br>Done: LED Forum established  |
| Commission necessary studies and investigations as per establishment contract: | <ul style="list-style-type: none"> <li>• Solar-Power Generation Plant (Oct.. 2014) - Study Done</li> <li>- Securing funding for the project</li> </ul> |

|   |  |
|---|--|
|   | <ul style="list-style-type: none"> <li>• Information Technology (Sept. 2014) –Study Done</li> <li>• Mining &amp; Beneficiation (Jul. 2014)</li> <li>• Tourism (Aug. 2014) – Marketing of the District Done</li> <li>• Film Studio</li> </ul> |
| Marketing strategies developed and implemented  | Done: July 2014<br>(Part of the Business Plan - Done)  |
| Communication plan and implementation   | Done: Sept. 2014<br>(Adapted from District Municipality)   |
| Prepare and adapt existing Business Plan (3 year plan with budgets) to incorporate new developments | October: 2014 (Done)   |
| Audit Report (AG's Report on LDA)   | Done: Nov. 2014  |

### 3.2 OPERATIONAL PHASE MILESTONES (2<sup>nd</sup> PHASE)

| Milestone   | Timeframe          |
|---|--------------------|
| Appointment of the CEO  | September 2015     |
| Identify and secure income generating opportunities for sustainability                          | Ongoing            |
| Service Delivery & Business Implementation Plan (SDBIP)   | Yearly (July 2015) |
| Business Plan (Three year Plan)   | Jan 2016           |
| Establish firm links with LED Role players for new projects and sign MoUs with all role-players | June 2015          |
| Develop Implementation Plan of District LED Strategy  | Jan 2016           |
| Maintain Audit opinion and Clean Audits in 2016   | Yearly (Nov 2015)  |

|  |   |
|--|---|
| <p>Marketing the Lejweleputswa District in all national events (e.g. NAMPO agricultural show, Durban Indaba)</p>   | <p>Yearly (May 2015)</p>  |
| <p>Implement &amp; maintain sound Financial Management</p>   | <p>Yearly (July 2015)</p>   |
| <p>Securing Funding for the Projects and Develop Bankable Business Plan/s (Feb. 2016)</p> <p>Preparation for New Project/s:</p> <ul style="list-style-type: none"> <li>• Incubation Project</li> <li>• Research on Minerals in the district</li> <li>• Research on alternative energy project (methane gas, Bio-energy)</li> </ul> | <p>February 2016</p> <ul style="list-style-type: none"> <li>• Solar-Power Generation Plant <ul style="list-style-type: none"> <li>- Securing co-funding</li> </ul> </li> <li>• Information Technology <ul style="list-style-type: none"> <li>- Develop Business Model/Architecture</li> </ul> </li> <li>• Tourism <ul style="list-style-type: none"> <li>- Marketing of the District Tourism</li> </ul> </li> <li>• Film Studio – (replaces Mining &amp; Agro- Processing) Study Done <ul style="list-style-type: none"> <li>- Securing funding for the projects</li> </ul> </li> </ul> |

#### 4. CAPITAL INVESTMENT AND SOURCE OF FUNDING

| Category              | Explanation  | IDC            | Municipality | Total          |
|-----------------------|--|----------------|--------------|----------------|
| Salaries              | Staff Salaries, bonuses, board emoluments, leave, paye, site, skills development, labour earning levy, workmens compensation, cellphone allowance and UIF  | R 1 802 205.00 | R 482 475.00 | R 2 284 680.00 |
| Office                | Cleaning costs, office rent, depreciation, printing and postage costs, telephone costs, repairs and maintenance, stationery, minor assets (less than R5000.00, bank charges, software subscription fees, VAT, water, rates and electricity and office equipment rental | R 233 578.00   | R0.00        | R 233 578.00   |
| Staff costs           | Any relevant courses to the operations and management of the Agency for all staff  | R70 073.00     | R0.00        | R 70 073.00    |
| Travel, accommodation | Car rental, travel costs, accommodation, parking, entertainment and meals, board car rental, board travel costs, board accommodation, board meals  | R 210 220.00   | R0.00        | R210 220.00    |
| Content cost          | Feasibility studies, environmental impact studies, business plans, advertising and marketing, marketing plans, pre-feasibility studies, tender/procurement costs, financial assistance, project legal costs, technical studies   | R 2 900 000.00 | R1200 000.00 | R4 100 000.00  |
| Services              | Legal costs – other, audit costs, accounting costs, recruitment, insurance, security   | R 151 825.00   | R0.00        | R 151 825.00   |
| Office sundry         | subscriptions, books and periodicals, offices sundries and office refreshments   | R 35 036.00    | R25 138.00   | R 60 074.00    |
| Capital costs         | Furniture, Computers   | R0.00          | R0.00        | R 0.00         |

|                |  |                       |                      |                      |
|----------------|--|-----------------------|----------------------|----------------------|
| Contingencies  | Any unforeseen costs                       | R100 000.00           | R0.00                | R 1000 000.00        |
| Social Capital | Investment into social capital initiatives | R 191 972.00          | R0.00                | R 191 972.00         |
| Vat shortfall  |  | R0.00                 | R 792 387.00.        | R 792 387.00         |
| <b>Total</b>   |  | <b>R 5 659 908.00</b> | <b>R2 500 000.00</b> | <b>R8 158 908.00</b> |

## 5. CONSIDERATIONS

### 5.1 Returns

#### 5.1.1 Financial

**Funding for the Agency will be raised from various funders and organizations, which are, but not limited to:**

- Lejweleputswa District Municipality (shareholder)
- Industrial Development Corporation (IDC)

All agencies need to ensure their sustainability subsequent to IDC exiting from the process. The TMDA will endeavour, through its various catalytic projects, to earn management, revenue and transaction fees.

#### 5.1.2 Development

- The objectives of the agency are to promote economic growth through the development and/or promotion of efficient and effective business environments in defined geographic areas.

- It is expected that the projects identified by the LDA, in partnership with the Lejweleputswa District Municipality, will have a significant developmental impact within the area.

### **5.1.3 Management**

Lejweleputswa Development Agency (LDA), as a wholly-owned municipal entity, is governed in accordance with the provisions of Local Government Legislation (i.e. Municipal Finance Management Act; Municipal Systems Act; and Municipal Structures Act). LDA is incorporated as a private company limited, within the Lejweleputswa District Municipality as a sole shareholder and, therefore, will be subject to the provisions of the Companies Act.

The relationship between the parent municipality and the TMDA is governed through a Service Level Agreement (SLA).

The Board of Directors have been appointed by the Municipal Council. The Board of Directors also constitute the Audit Committee. The Board consists of five (5) non-executive directors and the CEO.

Board Members:

- Mr. S.S. Mtakati (Chairperson)
- Mr. R. Mutsi (Deputy Chairperson)
- Mr. E. Lesenyeho (Acting CEO)
- Ms. MME Nthongoa
- Ms. M. Masala
- Mr. Ndlala

### **5.1.4 Marketing and Communication**

LDA has developed and adopted both the Communication and Marketing Plans. The Agency will have to create awareness and advertise its services through various media, such as:

- Local/district and/or national media

- Road-shows: interact with local/district and/or provincial stakeholders
- Investment and business forums

The MFMA Act regulates the communication between the shareholder and the Agency. The ADS department has designed a monitoring and evaluation tool that will necessitate a two-way communication channel with the LDA.

### **5.1.5 Legal/Corporate Governance**

LDA, being a wholly-owned municipal entity, is governed in accordance with the provisions of Local Government Legislation (Municipal Finance Management Act; Municipal Systems Act; and Municipal Structures Act).

LDA has been incorporated as a private company limited, with the Lejweleputswa District Municipality as a sole shareholder and, therefore, will be subject to the provisions of the Companies Act.

### **5.16 Any Other Key Risks**

Other potential risk areas that have been identified, which could ultimately impact on implementing the identified projects include the following:

- Political Risk – general tensions on a political front leading to frequent changes in municipal officials and Council members resulting in protracted decision-making processes.
- Project Risk - The agency's failure to conclude the relevant documentation necessary for projects to be developed / implemented; and, the lack of community and stakeholder participation organised around key project initiatives.
- Capacity Risk - Inability to attract and retain qualified and experienced personnel
- Financial Commitment Risk - Insufficient financial contribution and commitment from the Municipality resulting in lack-lustre participation.

- Other Risks - Risks associated with being able to negotiate access to land and general economic factors and investment risks
- Legal Risk – the limitations of the MFM Act to generate income to ensure sustainability

### **5.1.7 Risk Mitigation**

- Regular ADS visits
- Ensure SLA signed between agency and the Municipality
- The Service Level Agreement clearly specifies the responsibilities of the board as the governing body for the Agency.
- Ensure clear lines of communication and reporting between the municipality, agency and IDC
- Identify project specialist technical support upfront for the agency
- Selection and development of projects to be guided by the sector specialists upfront.
- Continued interaction with local environmental groupings will also ensure continued support for the projects.

## **6. CONCLUSION**

The application conforms to IDC's broader development objectives and goals. It is recommended that the proposal be supported.

## **7. RECOMMENDATION**

It is recommended that the 2<sup>nd</sup> Operational Phase grant of R5 659 908.00 be approved

## **8. CONDITIONS PRECEDENT**

### **8.1 Principal Conditions**

**All Conditions Precedent to be met to the satisfaction of the ADS Department:**

- The Municipality shall furnish the IDC with a letter of commitment detailing funds or other resources to be supplied to the Agency for the 2<sup>nd</sup> Operational Phase;
- The Applicant shall have complied with the necessary requirements of the Financial Intelligence Centre (FICA) Act no: 38 of 2001.

### **8.2 Normal conditions**

- Normal IDC Agency Development and Support conditions apply

### **8.3 Additional conditions**

- The agency must supply monthly reports to the IDC according to the ADS template
- The agency must furnish quarterly management reports within 30 days of each quarter end
- The agency must inform the IDC of any changes to the authorised signatories and provide ADS Department with the identities of the new signatories

### **8.4 Restrictive Conditions**

- The grant given to the agency is limited to the 2<sup>nd</sup> Operational Phase of the Agency. The fund supplied shall not be employed towards any programs, projects and initiatives deemed outside the Agency's activities, focus and mandate.

- Procurement of goods and services should be transparent and follow the Agency's procurement process.

### **8.5 Drawings / Milestones**

- The Agency's 2<sup>nd</sup> Operational Phase milestones will be used to measure and evaluate progress. The milestones will also be used as a tool to monitor the budget.
- The Agency shall not apply for the 3<sup>rd</sup> Operations Phase grant until all the 2<sup>nd</sup> Operational Phase milestones have been achieved.

## 9. TEAM

**S. Bartlett (Stuart)**

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Head: ADS

**N. Mzobe (Nomfundo)**

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LED Manager: ADS

**K. Mahlaku (Kase)**

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Manager: Legal Services & International Finance