

# Local Government and Local Economic Development in Southern Africa

Draft for discussion at the Southern African Regional Conference  
*'Creating opportunity for developmental local government through regional  
engagement on Local Economic Development'* Lilongwe, Malawi

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## **About CLGF**

CLGF works to promote and strengthen democratic local government across the Commonwealth and to encourage the exchange of best practice – through conferences and events, projects and research. Working with national and local governments to support the development of democratic values and good local governance. As a Commonwealth organisation, CLGF draws on the influential network of the Commonwealth that provides a solid basis for its programmes and activities. As an associated organisation officially recognised by Commonwealth Heads of Government, CLGF is well-placed to influence policy development and lead on democracy and good governance at local level.

CLGF's strength lies in its membership whose representatives are the key players in local government in the Commonwealth and can be drawn into CLGF's work as experts and influencers. CLGF is unique in bringing together central, provincial and local spheres of government involved in local government policy and decision-making. CLGF has more than 160 members in 40 Commonwealth countries including local government associations, individual local authorities and ministries dealing with local government.

## **About the author**

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In 1993 Professor Wekwete was globally recognised and appointed Senior Adviser, joining a team of experts managing and supporting the Urban Management Programme established by a consortium of the World Bank, United Nations Development Programme and UN Habitat. He also served as Senior Advisor to the UN Habitat technical cooperation division supporting the formulation of urban programmes to support municipalities and cities.

In 1999 Prof. Wekwete was reassigned to the United Nations headquarters as Senior Technical Adviser for the United Nations Capital Development Fund (UNCDF), an organisation focusing on the needs of the least developed countries. In 2002 Professor Wekwete was appointed Director of the Local Development Programme responsible for capital funding and programming in 35 countries. He directed a team of global technical advisers and programme managers at country and regional levels.

He is a corporate member of the Zimbabwe Institute of Regional and Urban Planners (ZIRUP), African Association of Planners (AAP), African Association of Public Management (AAPAM), and is associate member of both the UK and USA institutes.

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## **Acronym list**

ALAN – Association of Local Authorities, Namibia

BALA – Botswana Association of Local Authorities

CLGF - Commonwealth Local Government Forum

DR Congo – Democratic Republic of Congo

ECA - Economic Commission for Africa

GIZ/ GTZ - German Technical Assistance agency

IDP - Integrated Development Plans

ILO - International Labour Organization

LED - Local Economic Development

LEDAs - local economic development agencies

MDGs – Millennium Development Goals

P3 – Partnership, Participation, Progress

NGOs None-governmental organisations

PACA - participatory appraisal of competitive advantage

SALGA – South African Local Government Association

SADC – Southern Africa Development Community

SALAR - Swedish Association Local Authorities Regions

SAP - Structural Adjustment Programme

SMMEs - Small, Medium and Micro Enterprises

SWOT – Strengths, Weaknesses, Opportunities, Threats

PPPs - public and private sector partnerships

UNCDF - United Nations Capital Development Fund

UNDP – United Nations Development Programme

USAID – United States of America, Aid programme

## Executive Summary

This paper provides an overview of the status of Local Economic Development (LED) in Southern Africa. The paper is a result of a desktop study that was undertaken by Professor Kadmiel Wekwete on behalf of the Commonwealth Local Government Forum (CLGF) and follows on from the 2011 Cardiff consensus for local economic development. The paper provides a background to CLGF's Regional Conference on '*Creating opportunities for Developmental Local Government through Regional Engagement on Local Economic Development*' which will be held in Lilongwe, Malawi in March 2014.

The paper focusses on clarifying the meaning and approaches of LED and highlighting LED experiences in the Southern African region. The roles of key stakeholders in LED including central government, local government and private sector are explained, together with LED approaches and tools. The paper highlights LED related initiatives that can be promoted through regional cooperation and engagement. Emerging issues and challenges facing effective LED implementation are identified and recommendations for the way forward are provided. The paper also shares some case studies of LED implementation.

LED is characterised as a locally owned approach which enables local stakeholders to understand their economy, identify the needs, mobilise resources internally and externally and jointly take actions aimed at improving the local economy to realise its full potential. LED is regarded as a development approach with a territorial focus. The purpose of LED is to promote local economic growth and create jobs which contribute to poverty reduction. We review the different approaches to LED, in particular we look at both the pro-growth and the pro-poor approaches and the paper highlights that one of the main features of good LED planning is a clear understanding of the specific local and regional context.

The paper traces the evolution of LED from a global perspective and highlights that LED has gone through three major stages. LED can be traced back to the post second world war era where focus was on retaining investment, hard infrastructure and designing strategies to re-engineer the built environment to encourage economic investment. The trends of LED then shifted to the retention and expansion of existing businesses and promoting entrepreneurship. Contemporary trends in LED place emphasis on soft infrastructure investment which focuses on providing competitiveness of the local business environment, encouraging and supporting networking and collaboration between businesses including public and private partnerships.

The context of Southern Africa differs from the industrialised context of the North whose experience shaped the historical LED approaches. Most parts of Southern Africa are not industrialised hence the need to take cognisance of a number of factors when planning and implementing LED which include economies with polarised development, disjointed land tenure systems, lack of integration between urban and rural economies, high prevalence of poverty, limited industrialisation and high levels of unemployment and underemployment.

In Southern Africa, LED is considered as an important part of the national economic and development strategies. The paper identifies the lack of LED policies in many Southern African countries as a major challenge. In the absence of policy frameworks, LED efforts have not been effectively coordinated and integrated with other economic and development policies. Lack of policy guidance has resulted in stakeholders implementing ad hoc projects instead of engaging in planned LED activities. The absence of organisational and institutional arrangements for LED is another challenge facing the region.

With a few exceptions, local governments in Southern Africa countries do not have the mandate to promote LED. However, local government does play a critical role in gathering data, facilitating the participation of local stakeholders, coordinating LED planning and implementation, monitoring and evaluation, and the provision of most of the services which are important to the functioning of the local economies. LED efforts have been hampered by the general lack of a clear mandate for local government to promote LED.

There is a lack of a shared understanding on the meaning of LED and its different approaches as well as an inadequate agreement of the roles of the different stakeholders. The project approach to LED has resulted in a gap between LED initiatives and the wider local government service delivery at the local level. Ideally service delivery should be influenced by economic rationale to ensure the delivery of adequate services for economic growth and employment creation. The paper highlights the need to adopt LED as an approach and as a way of 'doing business'

The paper also identifies the need for LED to promote urban-rural integration which is critical for development in the region in general. LED tools like value chain analysis have been identified as key in understanding rural economies and are critical to locality development in the region which is largely characterised as rural. The paper highlights the need to enhance synergies between rural and urban economies realising that urban and rural economies are a seamless continuum which is distinguished by economic activities, settlements and social organisation.

LED approaches and tools are also discussed including the five stages of the strategic planning approach and tools developed by the World Bank and other development agencies such as GIZ. The paper also outlines six different pillars of LED namely economic governance, locality development, enterprise development, social and community development, training and capacity development, and technology.

LED efforts have not been adequately financed. For LED to succeed it needs to be considered in terms of national policy, institutional arrangements and financing modalities. Since LED is not a mandate of local government in many countries in Southern Africa, it has not been properly funded. The paper details the two main funding modalities for LED: namely public and private funding and calls for innovative ways of deploying capital in a way that derives the maximum benefits for the local economy thereby contributing to poverty reduction and better overall development outcomes.

Opportunities for regional cooperation are outlined with LED offering an opportunity to broaden the markets and promote trade within the Southern African region. Examples of regional LED initiatives that are identified are around transport, wildlife and tourism. The paper also encourages inter country LED which can significantly contribute to poverty reduction especially in remote border areas.

The paper concludes by identifying the key emerging issues which can be summarised as: a lack of understanding of LED at the national levels, absence of policy frameworks to guide LED implementation at national level, local government lacking the official mandate to implement LED despite communities expecting local governments to create jobs, lack of institutional and organisational frameworks for the implementation of LED, lack of funding and limited stakeholder participation in LED especially the private sector. Local government capacity to implement LED has also been identified as an important challenge.

Finally, the paper recommends that LED be embraced as a development approach which will enable local government to play a critical role in local development. National governments are encouraged to develop LED Frameworks to guide LED implementation at national level and mandate local government to play its facilitators and coordination role in LED. There is need for private and public sectors to partner in funding local economic development initiatives at the local level to maximise the full potential of localities in the region.

*‘LED is a virtuous spiral of cumulative economic growth resulting in surplus value being created by enterprises, savings accumulation by households and increased appropriation of tax revenues by both local and central governments’*

## **I.0 Introduction**

The study of local government and local economic development in Africa follows on from the *Cardiff consensus on local economic development* adopted by the Commonwealth Local Government Forum (CLGF) in 2011. The meeting which was attended by five hundred delegates from fifty one countries recognised the key role that local governments play in facilitating and coordinating local development strategies that promote economic opportunities and contribute to the achievement of the MDGs. The Cardiff consensus called on “national, state, local government, private sector, civil society and development partners to support and strengthen local government’s role in local economic development (LED) to help reduce poverty and promote economic prosperity across the Commonwealth.”

Four key actions were identified to enable local governments to play their full role:

- **Providing a clear national framework** for local economic development through effective fiscal, political and legal decentralisation including appropriate constitutional and legal recognition and access to an equitable share of national resources;
- **Creating an enabling environment for LED** which enable business to flourish by promoting direct investments, providing core services, convening the private sector and reducing red tape;
- **Developing local strategies to promote LED**, which involves local government working with other partners to understand the local economies and promoting integrated development planning and community consultation.
- **Developing the capacity of local governments to access existing funding sources** or to use innovative financing models to support LED through public private partnerships, special purpose vehicles, joint ventures, municipal bonds, and borrowing on the market where appropriate and accessing credit; and developing partnerships with the private sector and other partners to ensure effective promotion and coordination of LED;

The purpose of this study is to assist CLGF members in the Southern Africa region (and indeed across the Commonwealth) in furthering their understanding of the meaning, range and variety of local economic development initiatives that exist and how they connect to their country experiences. This initiative also follows the deliberations of the UNCDF Global Forum on Local Development (2010) and its emphasis on promoting local economic development through local governments. UNCDF jointly with UNDP have supported LED programming in several African countries (Uganda, Tanzania, Malawi, Sierra Leone) supporting policy development, institutional and capacity development, and financing projects on the ground.

CLGF is committed to advocate for LED as a key responsibility of local governments and to generate better understanding and support for local government's role in LED. CLGF strongly emphasises a holistic perception of developmental local government which encompasses understanding the mandates of local governments and ensuring that they are fulfilled, thus triggering the basis for local economic development. Currently CLGF is undertaking assessments in Southern Africa as a precursor to developing support programmes nationally and with specific local governments. CLGF, through its DFID funded Southern African regional programme (2012-2016) is implementing pilot projects that aim to develop local government capacity to facilitate, plan and implement LED in Botswana, Swaziland, Zambia and South Africa. CLGF also continues to support work in South Africa and have collaboratively worked with the South Africa Local Government Association (SALGA) to support local economic development. This paper seeks to clarify the definition of LED taking into account: the perspectives from the different local and external key stakeholders; existing perspectives and approaches to LED planning and implementation; the organisational structures and mechanisms for implementing LED; the specific actions undertaken by both local and central governments in promoting LED; the critical governance challenges and choices to be made in working at the different levels of LED; the paper will also furnish some examples and case studies of LED in action.

The paper fundamentally argues that LED goes beyond projects and should be fully mainstreamed with ongoing national and local development policies and programmes. LED should be viewed as an approach to local development, encouraging a focus on local economic transformation to respond to opportunities and threats existing in local and national economies. Each of the different countries has to factor their own comparative and competitive advantage in formulating and implementing LED programmes, taking into account the dynamic processes of urbanisation and decentralisation.



**Moses Mabhida Stadium – Stanford Hill, Durban, South Africa**



## 1.1 LED Overview

Local economies are shaped globally by policies and processes that are formed at the supranational, national, subnational and local levels, and include complex forces and processes such as globalisation, urbanisation, migration, global and national production systems and trade. These forces create opportunities and threats to localities which call for intervention through preparing plans and projects by both national and local governments seeking to create and promote local and national development. Strategies for local economic development are therefore planning responses that seek to address these challenges and opportunities in ways that benefit local citizens in their localities.

The need for local economic development also arises out of the developmental challenge that economic development does not occur everywhere at the same time, but occurs unevenly and inequitably across economic space, landscape and social groups, creating major challenges in terms of satisfying the needs of the citizens in terms of employment opportunities, wealth creation and services particularly for disadvantaged and marginalised groups. This forms the basis of regional development theory and planning. However the fact that these challenges affect different categories of the population and spatial areas in different ways call for innovative development solutions that involve the application of LED tools and techniques and acknowledge that the geography of development is unequal, uneven and requires public and private sector interventions to ensure equitable distribution of benefits to citizens.

Local economic development strategies can therefore be framed as a process that respond to the development challenges that occur at local (subnational) levels and bring together national and local governments, business, community groups, international development partners to work in partnership, and to counteract and reverse some of these negative development trends which include the growing incidence of absolute and relative poverty, poor access to infrastructure and services, growing informalisation of urban economies and decline and disappearance of existing industries.

Local economic development is about exploiting the latent and existing competitive and comparative advantages of localities, sectors and regions. In terms of specific deliverables, local economic development strategies seek to grow local economies (raising local GDPs and standards of living), to increase local employment and reduce unemployment, attract both local and international investment, retain and expand existing industries, and connect them to global value chains. This diversity of potential local economic development deliverables has attracted many definitions and meanings from academic scholars, international development organisations, governments and local governments. Indeed many policy makers and scholars have asked how LED is different from normal development/urban/rural planning; and the answer is that whilst LED is an integral part of the overall development agenda, it has a specific emphasis and target on **locality and territory**.

While LED is an integral part of the broader national development challenge, it remains first and foremost a response to the local development challenge and connecting the various local stakeholders to own and address the challenges. LED is territorial and bound by local jurisdictions (local authority, districts, municipalities, regions) who adopt it through their local powers and jurisdictions to address need, inequality, and opportunity and unlock potential.

Among the many academic scholars who have defined LED, Bartik (2003) focused on LED as the local economy's capacity to create wealth for local residents; Trah (2004) focused on LED as a territorial concept and part of the local/regional development aiming to stimulate the local economy to grow, compete and create jobs; Helmsing and Eghziabher (2005) focused on LED as a process fostering partnership to manage existing resources, creating jobs and stimulating the economy. Blakely, in his classic work (1994) identifies LED as a process which brings local governments and other key stakeholders to work together in their localities to stimulate and maintain business activity to stimulate local employment.

While all these key definitions of LED point to the underlying process or processes of fostering partnerships between governments, private sector, donors and the community to manage and stimulate local economic development of defined territories, they also point to the varied theoretical dimensions that underpin the origination of LED which include location theory, regional development theories, enterprise and business theories, decentralisation and political theories. These theoretical perspectives seek to explain in a normative sense how local development and business take place, seeking to find optimum ingredients to make development work. However the major challenge that many countries face is that of achieving practical clarity on what LED entails on the ground, and to establish a clear understanding among the stakeholders on division of labour in the implementation of the stated LED goals. In all standard definitions and manuals LED is about planning (urban/regional/rural), and reflects the basic planning methodology content of intervention including setting objectives, engaging in public participation, partnership building, and strategy and plan formulation. It all boils down to facilitating the combining of factors of production (land, labour, capital and technology) and finding effective and efficient ways to combine them to promote local and national development.

The World Bank (2003) has defined LED as a process by which the public sector, business and non-governmental sectors partner and work collectively to create better conditions for economic growth and employment generation to ultimately improve the quality of life of the citizens. This definition has been elaborated in a manual that has become the standard methodology followed in implementing LED. It describes a five stage process which enables municipalities/local economic development agencies (LEDAs) to engage key stakeholders in LED. This includes organising the effort; local economy assessment; strategy making; strategy implementation; and strategy review. The World Bank methodology has been tried and tested in many countries and modified to suit the realities on the ground.

The international development agencies including the World Bank, along with other multilateral, bilateral and non-governmental donors have played an important key role in defining LED, reflecting their own corporate biases and the experiences that they have gained in implementing LED programmes in the different countries. In many ways LED has been viewed as one of the tools for pushing the international development agenda and particularly addressing the needs of the poor and disadvantaged groups, and those 'left out' in the normal development processes. This is the pro-poor agenda of LED seeking to influence the allocative processes in favour of the poor (informal and community sectors) and invest in infrastructure and businesses likely to benefit the poor. However beyond the pro-poor agenda there is also the pro-growth agenda which seeks to find ways to make capital more productive and places more prosperous. While the two approaches represent different emphases, there is common ground in terms of promoting local development at the territorial level.

The International Labour Organization (ILO) defined 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 2006:1 Hindson (2007) in a paper reviewing donor approaches to local economic development in Africa defined “LED approaches” to mean “initiatives that encourage local actors within defined subnational territories to get together to analyse their economies, identify what needs to be done, mobilise local and external resources and take joint actions aimed at stimulating economic growth, increasing the number of jobs, increasing income and taxes, and by these means, reducing poverty and exclusion in ways that are economically, socially and environmentally sustainable.” page 1 While the many normative definitions of LED seem to point to a common LED framework, there are many challenges when LED is implemented on the ground and confronts the economic realities of different regions and localities. There is therefore a need to 'locate' LED within the political, economic and social reality of the different countries and regions.

*‘Local economic development has to deal concurrently both with rapid urbanisation occurring across African countries and the challenges of creating employment for a youthful population and creating basic services for the new migrants’*

## **2.0 Implementing the LED Agenda –perspectives and approaches**

### **2.1 Global overview**

The LED agenda started with the cities of the North which were experiencing and undergoing major transformations from industrial to post industrial cities in the post war era (Blakely 1989, 2010; Nel and Rogerson 2005). Many of the old industries that characterised the cities were in decline through the global economic restructuring and technological transformation. In Europe for example textile industries, shipbuilding, steel making and other traditional heavy industries on which the cities were built, moved to other overseas locations leaving a trail of declining and blighted cities. A similar trend happened in the United States with the global movements of capital (American multinationals) initially benefiting the US economy, but ultimately hurting local economies as factories closed and left a trail of unemployment and depressed cities and regions (Blakely 2010). The bottom line of this global restructuring has created a need to develop and adopt new technologies, and putting in place strategies that attract new investments and re-engineering the built environment (cities and towns) for new business.

Policy response in terms of promoting LED therefore initially focused on retaining and attracting new investments through place marketing and investment attraction, and putting in place incentive systems such as grants, tax breaks or loans, and significant provision of hard and soft infrastructure. Through proactive planning, the zones and areas in decline were identified, and through special legislation were rezoned for new development, which attracted new public and private sector investments (Nel and Rogerson 2005). With time LED strategy and activities have expanded and shifted towards business development –retention and growing of existing business, promoting entrepreneurship and business start-ups through business incubators and technical support to small, medium and micro enterprises (SMMEs). Beer (2009) highlighted a mix of LED strategies employed which include: encouraging inward investment, fostering new innovation, nurturing creative environments, promoting start-ups, coordination infrastructure investments and assisting small businesses to grow.

There has been also been a new emphasis placed on systemic competitiveness (Meyer-Stamer, 2008) – providing a competitive local business environment; encouraging and supporting networking and collaboration between businesses including through public and private partnerships; supporting cluster growth and quality of life improvements among local communities. This competitiveness in regional, national and global markets is the current frame of reference for LED practice globally.

## 2.2. A background to LED in Southern African

The Southern African political and economic reality is complex given the different colonial histories. Some of the key characteristics prevailing include: the fractured and artificial political boundaries which have distorted the economic map of Southern Africa; the nature of economic development which has been based on dependence on exporting primary commodities with limited manufacturing and technological development; the high degrees of economic and spatial inequality and imbalances prevailing in the national economies; and in general Africa's weak positioning in the global economy (Nel and Rogerson 2005).

While the current LED theories and methodologies originated in the developed industrialised countries where they constituted specific responses to declining and decaying urban industrial regions, the Southern African reality and context is different. It is about creating new opportunities where there has been limited industrialisation, and seeking to re-engineering the rural economies to make them more productive. Both urban and rural economies remain severely underdeveloped, although the issues within urban economies stem from rapid urbanisation largely dependent on informal sector, whilst the rural economies suffer from low productivity and lack of technological transformation. Therefore a key priority is the need to improve productivity of existing small and informal industries, beneficiation in the growing mining sectors and creating new non-farm industries in rural economies (Economic Commission for Africa (ECA) report 2012).

The ECA (ibid:10) report highlights the state of value addition and industrial policy in Africa and concludes:

*“Africa industrialization has been weak and inconsistent. In 1980-2009, the share of manufacturing value added to GDP increased marginally in North Africa, from 12.6 to 13.6% , but fell from 16.6 to 12.7% in the rest of Africa .....there is strong evidence to show that the root causes of Africa's low levels of industrialization and dependence on primary commodities exports not only lie in the colonial extractive mode of production but also and more important the import substitution industrialization from the 1950s to 1990s, not carried out in the methodical manner of Asia and Latin America”*

As highlighted by FAO (2010:1), rural economies are still a very crucial part of the national economies and need to be transformed to address both the absolute and relative poverty prevailing:

*“Poverty in Africa is still spatial, and highly prevalent in rural areas. The non-inclusive nature of economic growth and the more specific sectoral challenges-of poor rural infrastructure, failure to modernize rural livelihoods, little jobs diversification (for rural youth particularly), limited access to education and pervasive child labor - are all key drivers to rural poverty”*

The Southern African strategy therefore requires a focus on both rural and urban economies. Local economic development has to deal concurrently with rapid urbanisation occurring across African countries, the challenges of creating employment for a youthful population and creating basic services for the new migrants who end up in the informal sector with no access to formal housing and services, depending on petty trading, informal vending, cross border trading and artisanal manufacturing.

The application of LED strategies to non-industrialised Southern African economies therefore calls for different packages from those commonly used in the more industrialised nations, and require significant re-adjustment in setting the platforms and parameters for structural transformation to improve productivity in agriculture, and promoting non-farm activities. The Southern African strategy has to refocus on the necessary strategic parameters which emphasise creation and supporting new green field sites, enhancing the capacities of the informal sectors, and supporting increased rural productivity.

Rodriguez-Pose and Tijmstra (2007) have argued that LED practice in Africa – including Southern Africa, is no different from the experience elsewhere, and therefore it should follow the standard techniques and approaches. While this could be true in a broad sense, there is a vast difference in the environments and the economic history of Southern African countries which point to significant departure from the known and accepted LED practices. This calls on LED practice in Southern Africa to be part of the larger national development project and efforts that are grappling with economic transformation of the agriculturally focused rural economies which require initial investments in basic infrastructure and services (roads, water, electricity) before any major economic ventures can be initiated and sustained, followed by building robust commodity value chains to stimulate production and benefit the majority of the population. LED has to address the challenges of rapid urbanisation and urban development which require a structural shift from pre-industrial economies to industrialised ones and has to be informed by broader theories and methodologies that support the transformation agenda of addressing poverty, inequality and productivity. This means supporting the implementation of decentralisation policies, rural and urban development policies, and responding to the other broader and global agendas like the millennium development goals (MDGs).

The early Southern Africa's post-colonial development strategies focused on the adoption of import substitution policies seeking to industrialise and transform the inherited colonial economies. This in turn would significantly improve local forward and backward linkages in the economy and reduce external dependence. The strategy adopted across Southern Africa was only partially successful and lacked sustained and consistent support from Governments and development partners. Some of the infant industries from the early stages survived and have thrived to the present day, but in most cases liberalisation of the economies under structural adjustment programmes killed off many industries as government support and subsidies were withdrawn. It has been often asked whether LED-supported enterprises fall in the import substitution category and the answer is partially yes, given that many localities have no productive bases and are dependent on imports, which means a number of new enterprises will be motivated by providing basic services locally.

During the 1980s and 1990s most Southern African countries adopted structural adjustment programmes as a way of freeing economies from centralised state control and increasing economic efficiency. Whilst liberalising the economies created a platform for their engagement with the global economy, this had major negative consequences in terms of removal of protection of the local industries and local economies, and giving them a chance to compete. In the context of Southern Africa, only the industries in South Africa have survived due to a larger domestic market and maintaining a competitive edge globally in terms of technology and through support from the State (Nel and Rogerson 2005). Under Structural Adjustment Programme (SAP) regimes, the redefined roles of the State and local governments weakened their ability to respond, putting more emphasis on the market and the private sectors. At the local level the problem was worsened by the lack of an established private sector which meant no services and lack of capacity to respond to the economic challenges. The end result was rising unemployment, rising cost of living (price of basic commodities unaffordable) and increasing social and political tensions. The bottom line in most cases has been the decline in local production of food, goods and services.

Beyond the 1990s, the response has been to rebalance public and private sector involvement in economic development, and the main focus has been on preparing and implementing poverty reduction strategies, promoting public and private sector partnerships (PPPs), and more recently with a more explicit focus on local economic development and broader wealth creating strategies. This has raised the tempo on the need to promote local economic development in both rural and urban economies of Southern Africa and brought to the fore the challenge of what is local economic development and who is responsible for carrying it out?

The application of LED to Southern Africa has therefore got to take cognisance of, and deal with the following typical economic characteristics:

- enclave economies with polarised development focused on the urban/industrial/mining centers; urbanisation and industrial development is concentrated in the few primate cities leaving the majority of the population excluded and the rural economies underdeveloped;
- disjointed land tenure systems and land apportionment not conducive to national infrastructure development; existing town planning and land management systems have no impact on traditional and informal systems which are just left to fend by themselves;
- sharp distinctions and lack of effective economic integration between rural and urban economies; the rural/ urban dichotomy continues to grow and sharpen with, on one hand the population marching to the cities, whilst on the other hand the rural economies continue to shrink and are unable to transform themselves;
- high prevalence of poverty in both rural and urban sectors; poverty straddles both rural and urban economies and the need to address productivity and promote new investment is becoming critical;
- limited industrialisation and commercialisation of the local economies; this limits the ability to generate local employment and for local governments to grow their tax bases and results in poor and underdeveloped infrastructure nationally and in rural and urban settlements;
- high levels of unemployment and underemployment in both rural and urban sectors; this is endemic and requires significant innovations in terms of human resource skills, technology and access to capital
- With the exception of South Africa, Mozambique and Zimbabwe, Southern African countries have relatively small populations and low densities in both rural and urban economies; this creates weak state presence (institutions and organisations) and particularly underfunded and ineffective local governments levels;

These characteristics and challenges continue to prevail long after political independence was achieved, and significantly hamper effective participation in the global economy and the development of integrated economies with effective backward and forward linkages. This is the context which LED has to deal with (different from the developed economies) and has to create innovative solutions that bring jobs, investment, new technology and place prosperity.

Thus the design and conceptualisation of LED in Southern Africa has to address these challenges and inform policy on appropriate development strategies to reverse the persisting underdevelopment.

LED as a policy and strategy has to be both well informed and mainstreamed with other national policies. It has to address the multidimensional nature of poverty and promote sustainable development; it has to promote projects in localities with limited infrastructure and low human resource capacities through attracting both public sector and private sector resources. LED is indeed the frontline for promoting local development where in most cases it never existed before, and therefore there is a need to adopt a medium to long term perspective which has to be holistically and comprehensively designed as part of the national development plans.

LED as a policy and process brings together key local, national and international partners together to invest in, and stimulate local economies for growth and poverty reduction. It is fashioned as a bottom up process emanating from localities (defined territories), advocating for and attracting external investments, retention and expansion of local enterprises, connecting global value chains and mobilising the private sector.

Whilst focusing on localities, LED requires well-articulated national and local policies, strengthened local and national institutions and the regulatory frameworks, committed and purposeful planning, and commitment to financing by both the public and private sectors. The deployment of financial and human capital is the key to strengthening the spiral of cumulative economic growth of which LED is centrally about. LED must be seen as central to repackaging factors of production at locality levels –land, labour, capital and technology. Local authorities are able to mobilise land and labour, but rely on other stakeholders for capital and technology.

LED is therefore multi-actor in terms of implementation, and all the key actors become part of the continuous learning and lesson sharing. Most fundamentally local and national governments have to steer local economic development creating the necessary conditions and space for engagement with the private sector, community groups and other non-governmental actors. This is the first and most important condition for effective LED – recognising the critical division of labour among the key stakeholders and creating recognisable forums for action. Effective LED also requires strong community involvement particularly in the rural and urban informal sectors.



### 3.0 LED in Southern African Countries

There are 15 countries in the Southern Africa block that constitute the SADC<sup>1</sup> - the umbrella regional economic community characterised by major diversity ranging from the industrialised South Africa economy (albeit with a strong apartheid legacy), to small resource deficient Lesotho and Malawi, to the resource rich Angola, DR Congo, Zambia, Zimbabwe and Botswana. SADC as a region is characterised by high degrees of spatial and social inequities (high gini coefficients in all countries<sup>2</sup> particularly South Africa at \*63.1 (2009) and Namibia 63.9 (2004); contrasting rural and urban economies; rapid urbanisation and growing informalisation of their national economies; high dependence on primary raw materials with limited value addition; and high youth and national unemployment.

Whilst the national economies have generally performed in a robust manner (+5% growth), this has not reduced in any significant way the growing rural and urban poverty in many African countries. This trend which affects most of the SADC countries also affects even the stronger South African economy whose industrial economy has not been generating enough jobs and failing to compete effectively on the global markets. The challenge for supporting and promoting local economic development has therefore grown significantly across Southern Africa as governments increasingly view LED as an alternative paradigm which would stimulate local industries and create new employment.

LED is viewed as an important part of the national economic strategy for Botswana, Malawi, Zimbabwe, Zambia and Lesotho who have all embarked on developing national policies which focus on local economic development. However there have been no explicit policies directed at LED but rather indirect references in line with the support and implementation of decentralisation policies and desire for structural transformation of the economies and reinforcing the forward and backward linkages in production (value chains).

At municipal and city levels there is evidence of rapid informalisation as an important coping strategy by the urban poor who resort to petty trading and small manufacturing of basic goods. The recent 'Managing Informality' report (SALGA 2013) highlights important examples from five African Countries (Kenya, Mali, Rwanda, South Africa and Tanzania) on how local governments have approached and intervened in the management of the informal economy. Within these countries, between 76% (Tanzania) and 35% (South Africa) of the population is engaged in the informal sector, giving an indication of the importance of the informal economy and traders as a substantial and integral part of the urban economy.

This has created a significant demand for local governments to work together with the informal sector and force the need for a serious dialogue in finding solutions in terms of locality and business development. The emerging LED model in Southern Africa is being strongly influenced by the South Africa experience where there is clear commitment to LED through developmental local governments.

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<sup>1</sup> For more details on SADC and a list of member states see [www.sadc.int/member-states/](http://www.sadc.int/member-states/)

<sup>2</sup> Malawi 43.9 – 2010, Namibia 63.9 – 2004, Malawi 39.0 – 2004, Mozambique 45.7 – 2008, Swaziland 51.5 2010, DR Congo 44.4 2004, Angola 42.7 2009, Zambia 57.5 - 2010 <http://data.worldbank.org/indicator/SI.POV.GINI?page=1>



### 3.1. The South Africa experience of LED

At the national level South Africa has committed to coordinate and align support to municipalities for LED through the Integrated Development Planning (IDP) process; provide the overall legislative and regulatory framework; maintain strong intergovernmental relationships and institutions; provide the necessary resources; and to monitor the outcomes and impacts of LED activities nationally. The key to the South African model is commitment to providing resources through the stipulated intergovernmental fiscal model.

At district levels there is a strong commitment to plan and coordinate LED strategies within the IDP framework; establish LED structures and ensure coordination of policies, strategies and projects; identify lead sectors in LED that can kick-start development at locality levels; promote joint marketing, purchasing and production and identify the necessary local and international resources to support LED.

At municipality levels the focus is on ensuring that economic and social development are prioritised; conducting relevant studies to strengthen awareness and supporting the capacity of local institutions; establishing a LED forum and roundtables with local municipalities; and maintaining an economic database to inform decisions and acting as early warning systems for municipalities; mobilise civil society to participate in LED and establish sector linkages and clustering of economic activities.

The LED experience in the other Southern African countries has been more sector oriented than territorial with the rural sector receiving attention in terms of developing value chains to improve production, processing and marketing. With 62% of the population in SADC<sup>3</sup> still rural LED models have to necessarily focus on rural economic transformation and building the rural - urban bridges. The biggest challenge in Southern Africa has been the lack of holistic LED policies, strategies and the necessary organisational frameworks.



<sup>3</sup> All SADC countries are more than 50% rural except South Africa, Botswana and Angola  
[www.sadc.int/information-services/sadc-statistics/sadc-statiyearbook/](http://www.sadc.int/information-services/sadc-statistics/sadc-statiyearbook/)

## 4.0 Organisation structures and mechanisms for LED

After outlining the various definitions of LED, the next challenge is to identify who actually does LED and what are the mechanisms and structures for it. As the definition suggests, LED brings together central and local governments to interact with business and non-governmental sectors. This sets the scene on who does LED, and the emerging division of labour. In Southern Africa and other developing nations, the state is central to LED development through policies and providing the public sector resources to initiate and implement development. The state operates through different spheres – national/ provincial/ regional/ local or municipal, whose areas of jurisdiction are defined constitutionally and through relevant legislative instruments. The state also establishes specialised parastatal agencies- focusing on funding small and medium enterprises, agricultural and infrastructure development.

However traditionally and in a classical sense, LED is local and subnational, operating below the state and usually focused on municipal local governments. In the Southern African context however, LED goes further and signals a way of doing national development invoking a bottom up approach to both local and national development. LED assumes meaning not only as isolated projects but as “a way of doing development” emphasising economy on top of the basic service delivery. This is also being reflected in the different tools which are applied and are being adopted within the frameworks of national and regional development.

The organisational framework for LED has to deal with different levels of authority in the hierarchy of the state power and apparatus. At the subnational levels there are two ways that LED has been institutionalised: first, directly as a function of municipal/district local governments; and secondly through creating institutions that are delegated the responsibility for executing LED. In the former LED is placed in the mayor’s office or planning department and executed as part of the regular duties of local government, using the existing human resources and budget. In the latter, special agencies are created (LEDAs) and delegated responsibility by the municipality or other subnational /national entities.

At the most basic level LED addresses the needs of individual households and families seeking to expand and improve their livelihoods –through more local investment in their current activities or venturing to start new business. The authorities managing LED (local governments and other local organisations) have to provide a bundle of services which include entrepreneurship training, local financing, infrastructure investment, technology and mentoring support.

LED seeks to attract new investments and therefore the LED authority has to invest in making the localities attractive and viable. This requires a public sector investment commitment beyond the short project horizons. Both hard and soft infrastructures are needed to make places attractive to investors.

The emerging general model of LED seeks to address underdevelopment in terms of seeking to tap on local potentials, local comparative and competitive advantage, using local skills and empowering local communities and their institutions across the board as opposed to only a selected few centers. There is also a mix of the typical structures that support LED, whose bottom line is the political support by the elected bodies or established bureaucracies.

The specificity of the Southern African model is dictated by the need to view LED holistically in the national development framework; the need to pay special attention to both rural and urban sectors; the need to transform colonially shaped and inherited economies (artificial borders creating many land locked states) and making them locally focused; and paying special attention to the demographic and environmental challenges.

## 4.1 Role of Central Government in promoting LED

Central governments are the hub of policy, institutions and funding for public sector development. LED usually exists within the framework of national sector ministries and special agencies that support a range of local programmes and projects impacting on local development, depending on the sector orientation. However, all the sector policies, planning and budgeting tend to be top-down and supply driven, sometimes paying limited attention and engagement of local governments.

The national budgets provide key public sector funded services and infrastructure (water, health, education) and shape the specialised policy/programme needs and requirements (industrial, rural and urban policies). These ultimately define the roles of local governments as implementers in the chain dominated by the more centralised jurisdictions. The role of implementers is to engage local stakeholders and decision makers prioritise their needs and support implementation programmes.

However to be effective, LED needs to be conceived holistically as part of national economic development not as a series of ad hoc projects happening when some donor funding is acquired. It must be the policies, programming and resource mobilisation by the state, through local governments and other subnational units, which form the fundamental base and building block for LED – creating the platform from which LED programming takes off. Once mainstreamed at national level in terms of legislation, policy and budget, funding of LED becomes a regular activity in rural, urban and national development and this regularisation is the biggest challenge faced by many of the Southern African countries, and an area where they need significant support.

Institutional development, infrastructure and investment from sector ministries only becomes effective for LED when resources generated from the centre flow to local levels (through sector and fiscal decentralisation) and are complemented by local efforts to mobilise and generate revenues. The role of national sector ministries and parastatals should primarily be the shaping of both the policy and investment instruments whilst local organisations shape the implementation. This balance of engagement is a critical prerequisite for sustainable LED.

The various LED policies which represent a mixture of pro-poor and pro-growth initiatives will shape LED strategies accordingly with the former able to address the needs of the small informal enterprises whilst the latter is usually for the bigger and more visible investments (for example, shopping malls). However in many countries investment in infrastructure and service delivery for poverty reduction and other targeted strategic investments for economic growth merge towards a common goal of creating new jobs and generating wealth.

These translates in many of the Southern African economies to specific policies that have a direct bearing on LED which include: growth centre policies and cluster development; agro industrial initiatives and business development; industrial development policies and specific sector developments; and value chain approaches that are conceived with the desire to promote equitable, balanced and sustainable development, and with their targets at sub regional levels (intra and inter region). One major challenge is the issue of coordination among the different agencies and promoting synergies among the different policies. The translation of the different approaches at country and subnational levels as well as their impact, depends on clarity in terms of roles and mandates among key stakeholders; understanding the synergy with subnational and local governments in facilitating, convening, dialoguing and coordinating local development.

It is also at the national level that the broad array of incentives for investment are set in terms of tax breaks, land and infrastructure grants, repatriation of profits and dividends, training and capacity building. The importance of these policies and incentives is to create basic development infrastructure around which a variety of micro programmes and projects can be constructed. The key base actors in promoting national macro based LED are the sector ministries and specialised national departments.

In South Africa the responsibilities of national governments for LED include the following:

- coordination and alignment of support to municipalities for LED through the IDP process;
- providing support to municipalities to implement their mandate;
- providing the overall legislative and regulatory framework for LED;
- maintaining strong intergovernmental relationships and institutions;
- providing the necessary resources to municipalities for LED implementation
- monitoring the outcomes and municipal LED activities
- Informal economy
- Sectoral development (e.g. agriculture, fisheries, tourism, mining etc.)
- Inner city economy revitalisation

The clarity which manifests in South Africa about the role of central government is not found in the other Southern African countries where the mandate tends to be fragmented and scattered across the different government departments who each own small pieces of the puzzle, and work within uncoordinated local government strategies and frameworks. More recently however there has been progress in national-level commitment to LED policies in Botswana, Swaziland supported by development partners including the CLGF. This is also typical of the programmes that have been supported by UNDP/UNCDF across the African region, which have emphasised policy, institutional development, financing and support to pilot projects.

While the debate still exists about the appropriate levels of intervention by central government, there is general agreement that LED cannot operate as a series of municipal projects without clear connectivity to national policy frameworks and particularly without financial and technical support.

## 4.2 LED at subnational/local government levels

The subnational architecture of the majority of Southern African countries is derived from the political and administrative provisions of unitary states further observes that with the exception of South Africa whose constitution mandates devolved powers to empower regions and which creates substantial space for local governance, all other unitary states have clear legal and de-facto preferences for centralisation, which anchors power and resources in national legislatures, bureaucracies, judiciaries and the executive. Whilst the unitary nature of government tends to limit the levels of autonomy that can be exercised, it still allows for operations of developmental local government, which usually makes a clear distinction between rural and urban local government jurisdictions in terms of the powers given in the legislation and powers to make bye laws. While rural local government primarily caters for provision of basic services (such as education, health, water, feeder roads), urban local government tends to be more complex, catering for a wide array of responsibilities of the built environment, in line with the higher population thresholds and population densities, and the complex economic activities that exist at higher levels of agglomeration and urban economic function – in addition to the provision of basic services. This has important implications for the definition of LED and methods of implementation in rural and urban economies.

At sub national levels, LED is undertaken by, and through provincial/ local governments, municipalities and district governments. In the case of South Africa this is backed by the constitution and legislation and gives local/provincial governments mandatory responsibilities for LED. They are a defined sphere of government with inviolable and clearly marked and demarcated powers in the constitution. This enables local governments to provide both technical and financial resources for LED, and to prepare plans which incorporate and articulate LED, and is a key expectation by citizens in terms of specific results/outcomes.

The wide range of LED strategic focus areas in South Africa include:

- property development;
- place marketing for onward investment;
- small medium and micro enterprise development (SMME);
- investment facilitation;
- improving local business climate;
- encouraging local business and institutional development;
- upgrading skills and training;
- Specific investment in sites and premises.

One important emerging sector in LED strategies has been tourism development, improving both leisure and business tourism, as highlighted in the South Africa experience and through the highlights of the recently held World Congress on Tourism<sup>4</sup>.

The challenge in many Southern African countries is that LED is not a mandatory function of local governments. It is an increasingly important discretionary responsibility, which is also politically becoming very important, based on the increasing demand for employment among a growing youthful population across Africa, and the demands for improved productivity in the function of local economies. This challenge has resulted in LED being chosen as a priority in all the countries that have been undertaking decentralisation reforms. There is also a close link between service delivery and local economic development given that adequate services and infrastructure attract stability in the labour force reproduction, and a potential platform for entrepreneurship and innovation.

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<sup>4</sup> For more information, see [www2.unwto.org](http://www2.unwto.org)

Helmsing and Egziabher (2005) highlight the broad challenges and some specific cases relating to the LED experience. There is recognition of the difficult environment to undertake LED, combined with the lack of funding, government capacities, skills and infrastructure. The levels of decentralisation to local governments are severely hampered by limited fiscal decentralisation making provision of basic infrastructure and service a challenge. Therefore most of the LED initiatives tend to be driven and supported by donors, development partners and non-governmental agencies. This creates the challenge already identified in this paper of coordinating policy, institutions and financing.

The United Nations Capital Development Fund (UNCDF) through the innovative local development funds, has supported the LED thematic in Southern Africa from piloting small demonstration projects; to scaled up programming at national level in Malawi; as well as elsewhere in the continent including Sierra Leone, Uganda and Tanzania. The logic of supporting LED has emanated from the demands of local governments and communities expressed through participatory planning exercises which determine priorities of localities and regions. This process has filtered through to national policies where priority of poverty reduction, increasing local employment and empowerment has been greatly emphasised. There is also strong evidence in recent years of central governments promoting decentralisation policies, and seeking to go beyond service provision and service delivery, towards broader local wealth creation and employment generation. LED therefore ceases to be a package of stand-alone projects, but of projects derived from a local development process of which local governments are key actors, together with private sector.

South Africa has clearly articulated the roles of district and urban municipalities as the implementers of LED. The roles include:

- Plan and coordinate LED strategies within the framework of IDPs;
- Ensure that social and economic development are prioritised in the IDP;
- Identify lead sectors that can kick start development within districts by undertaking research and analysis;
- Promote joint marketing, purchasing and production activities;
- Identify and market new opportunities;
- Identify resource opportunities for financing LED;
- Facilitate LED forums and forging partnerships with other key stakeholders

The experience of the other Southern African countries shows severe limitations of local governments as promoters and implementers of LED, because of the limited intergovernmental fiscal transfers and local revenues to support LED, but in all cases there is evidence of a strong political push towards LED promotion. The emerging picture of LED at subnational levels is that of the close linkage with the overall local government policy and the broader local development strategy with the attendant project financing processes. This reinforces the notion of LED as an innovative process of combining the key factors of production = land, labour, capital, technology and human resources.

### 4.3 LED and the private sector

LED is directly promoted by private investors and in most cases the many shades of the private sector are the lead players in deploying capital, technology and in engaging human resources as they take advantage of specific resources found in a district or region, and also respond to the incentives provided by both central and local governments. The private sector is however very selective and driven by the profit logic (not necessarily the public sector development logic)

The private sector (particularly the finance houses) provide the key necessary resources for local economic development for both the rural and urban economies through supporting existing businesses, targeting new investment support to the mining, forestry, fisheries and commercial agricultural sectors. The link between the public and private sector is very critical to understand because developments in private sector activity usually follows behind public sector investments in services and infrastructure targeting for locality development. The private sector includes all activities (large and small) that seek profit from their investments beginning with the activities of individual households. Local activities are financed at locality levels through individual and group savings, borrowing from microfinance groups, commercial banks and venture capitalist firms, as well as the highly capitalised and technology driven external activities of multinational firms.

The public investments which create and maintain the roads, health facilities, schools and the water and irrigation facilities are an essential ingredient of LED and constitute the backbone of locality development, hence the critical link between service delivery and promoting LED. Government is very important in terms of setting policy and managing organisations and institutions at all levels. Local governments in particular undertake public investments at local levels which encourage public/private partnerships particularly around designated growth zones linked to primary production and providing services for the local community. This connects the activities of central, local government and the local community.

Bartik (2003) defined local economic development as those special activities undertaken by the public and private sectors to promote economic development which include: providing customised assistance targeted at individual businesses that provide economic benefits; and strategic initiatives in which more general tax spending and regulatory policies of government are changed to promote economic development. General local economic development can occur without a concerted effort by both the public and private sectors, but LED programming is deliberate and conscious, and necessary for disadvantaged areas.

The challenge faced by most Southern African governments is to set in motion this deliberate planning process which engages the private sector towards a common goal of local development. Experiences in Botswana and Namibia have highlighted the critical importance of forums and roundtables with chambers of commerce and industry in engaging the private sector.

The private sector is the realm that calls for support to business development, customised training, and putting in place an array of incentives to attract investors. The bottom line in the Southern African context is to acknowledge the need to grow the private sector given that it does not exist in many of the remote, rural and disadvantaged communities.

## 4.4 LED in Rural and Urban economies

It is clear LED in Southern Africa is urgently needed for both rural and urban development to stimulate the latent capacities and engage local communities and local institutions in development. Projecting rural and urban economies is very important to ensure that LED is not biased only towards urban economies. LED becomes an enabler and unlocks potential, shifting towards the paradigm of community empowerment and away from dependence. Local development ceases to be a game of waiting for the government/donors to provide everything, but shifts more towards a proactive approach by local actors which enhance their local empowerment. Both rural and urban development require macroeconomic policies which define priorities and set the necessary incentive structures for funding, infrastructure development, training and business development, and provide the framework for the ongoing dialogue with donors and investors.

Whilst urban and rural development policies tend to be the domain of central government and only in a few instances of local governments, implementation depends on resourced and empowered local governments, which are visible and can engage with the private sector players and international partners in development. The framework for LED engagement is that of decentralisation of political, administrative and economic powers and countries that are promoting decentralisation are likely to promote LED as a funded mandate through central transfers and local revenue mobilisation.

Given the economic dependence on agriculture and other primary production in Southern Africa, effective LED in the rural economies is centered on building and connecting the commodity value chains, improving agricultural productivity and marketing, and developing rural agro-industrial enterprises. Value chain development has received significant attention in recent years and offers a strategic way to address the opportunities and constraints facing the productive sectors of a locality and its producers and businesses. Poorer regions in Southern Africa suffer many disadvantages and constraints, and value chain development is critical in tapping their comparative and competitive advantages, and connecting them to regional and global markets.

A comprehensive study of value chains by USAID highlights the following: A value chain is a supply chain made up of a series of actors—from input suppliers to producers and processors to exporters and buyers—engaged in the full range of activities required to bring a product from its conception to its end use. Value chain activities can be contained in a single geographical location or spread over wider areas. As defined by the Global Value Chains Initiative, global value chains are divided among multiple firms and are spread across wide swathes of geographic space. As the product market grows and more product and money flows up and down the chain, demand is generated for services—referred to here as supporting markets. The supporting markets include sector-specific and crosscutting financial and business services.

The chain operates in a business enabling environment that can be at once global, national and local. The global business enabling environment can include multi- and bi-lateral trade agreements and worldwide standards. The national environment can include political stability, transparency, tariff and non-tariff trade policies, and the array of laws and regulations that can hinder or expedite business and trade. The local environment is primarily comprised of policies, plans and provides an opportunity for specific strategies to be developed.



In most cases however, there is a need to invest in key institutional and infrastructural developments which act as the precursors of business activity and development – most of the rural economies are severely underdeveloped and lack the basic infrastructure (feeder roads, water, and electricity) necessary for them to attract investment. This raises an important question in local economic development of what comes first in the process of combining the factors of production. Certainly in rural Southern Africa, locality development and human resource development are central to building the necessary economic potentials which attract capital and technology. However given that the majority of economic activities are agricultural and most farmers are undercapitalised, along with with low levels of productivity, promoting value chains of agricultural commodities is the key to improving local incomes and grow the local tax base in rural areas.

As highlighted by Hobson (2012), local governments could greatly benefit from using value chain analysis in local economic assessments and strategy formulation. This sharpens the focus towards removing specific obstacles in the value chains and is likely to benefit localities more. A full understanding of the potentials could positively influence the prioritisation in locality development – for example; investing in feeder roads, water, electricity and other infrastructure.

## Bontebok National Park. Swellendam



## 4.5 LED in Urban Economies

Urban LED in Southern Africa has two main tendencies – the first strand addresses the challenges of the informal sector and the productive sector as a whole, which employs many of the young urban citizens unable to find and compete for formal employment – this form of LED tends to be largely pro-poor and seeks to remove obstacles and improve livelihoods and survival. It seeks through building SMMEs to improve local productivity, local employment and local welfare in general.

The second is the traditional LED focus on the place prosperity of the built environment. This is a traditional urban planning concern which seeks to reengineer the functionality of the urban systems and places to make them attractive to commercial and industrial investment and development.

In reality the two approaches work together in Southern African cities but the necessary precondition is the existence of developmental local government which steers the LED process in a strategic manner. This dichotomy between pro-poor and pro-growth has been discussed and debated in the South Africa experience where initially government adopted a pro-poor focus in line with the overall transformation agenda that the country was pursuing through the reconstruction and development programmes and the preparation of integrated development plans (Nel and Rogerson, 2005). This has translated into “pro-poor” and “pro-growth” variants of LED although there is a significant blur on the boundaries of each and in the end LED caters for both growth and poverty reduction. While the literature seems to suggest that LED is successful when it is pro-growth and market driven, the reality of Southern African cities and towns is that LED has much to say on the pro poor agenda, which might not generate new technologically driven jobs, but has impact on the lives of the majority of the poor urban working population. This calls on the need to understand and analyse the growing informal sectors of the urban economy (Nel and Rogerson eds 2005).

The combined rural and urban development agendas focus for LED therefore includes:

- Property and infrastructure development;
- Place marketing and creating attractive built environments;
- Commercial developments, e.g. shopping malls;
- Small medium and micro enterprises (SMMEs);
- Local business climate-Institutional environment-skills and training;
- Value chain development;

Southern Africa’s LED model should be strong on policy at both national and local levels to ensure effective mainstreaming with the other broader national and sectoral policies. The positioning of LED is crucial to enable all players and particularly the local governments a firm platform to operate from. Whilst projects are important in demonstrating the reality and benefitting local communities, Southern Africa’s LED strategy is unlikely to succeed if it is about isolated and select initiatives at locality levels. They have to be embraced in a holistic policy owned and supported by the State and the other spheres of government. This has to be backed by a range of institutions and organisations to support LED programming and implementation.

## 5.0. Approaches and Tools for LED

Most approaches to programming LED have proposed or prescribed frameworks for implementation. The World Bank (2005) identifies five critical stages of LED development which have become the standard:

- organising the effort which includes bringing together public, private and community sectors to work together, and establishing a home for operating LED within the organisational and institutional framework;
- undertaking local economic assessments: demographic, economic, investment, infrastructure and social analysis;
- formulating a LED strategy including creating a vision, developing goals and specific objectives;
- strategy implementation including defining responsibilities, targets, budget and human resource requirements;
- Finally, reviewing strategy through regular monitoring and evaluations. This provides the business standard for doing LED.

Another important didactical tool is the Hexagon, (promoted through the German Technical Assistance (GTZ), and the work of Meyer-Stamer (2006). It conceptualises the key issues in local and regional economic development – target group; locational factors; policy focus and synergy; sustainability; governance; and process management. This approach has fostered the participatory appraisal of competitive advantage (PACA) tool seeking to mobilise and unlock local potential in a bottom up and participatory way.

Around these basic project/planning frameworks a range of LED tools have been deployed. The South African LED Network (2011) has published a *Councillor's guide to LED* which summarises the major tools in operation in South Africa and indeed globally. These tools are utilised across the spectrum of the planning cycle with a large number focusing on assessments and engaging the communities and stakeholders in LED.

The guide identifies give key themes round which the various tools are deployed: improving the business environment; strengthening existing businesses and the leading sectors; following community based LED; promoting training and capacity building; and fostering communication and networking.

The choice of tools to be used depends on the theme that LED is emphasising and on the nature of the challenges to be addressed.

**Economic governance** seeks to improve the economic performance of local governments (and indeed central governments) in terms of institutional arrangements, accountability and transparency and creating an enabling environment for business through intermediation and facilitation. Several tools have been deployed in assessments including: business climate survey/business and investment climate assessment which gathers qualitative and quantitative information on the local economy and business environment; plugging the leaks, which is about working directly with communities to analyse the local economy and finding solutions through prioritising local enterprises, value addition and innovations; red tape reduction which focuses on reviewing regulations, rules, procedures and processes that interface government and business, and finding ways to improve; regulatory impact assessments which seek to improve the quality of regulations in place at national and sub national levels which impinge on LED.

**Locality development** involves improvements to the state of the natural and built environment: basic roads, power, water and other specialised economic infrastructure: irrigation, grain silos, warehousing, market places and transportation systems. There are a number of assessment tools that have been deployed for locality development. The first are the physical planning tools for zoning, schemes and local development plans. These are key tools that local governments have at their disposal to manage land and the built environment. Local and national government designate specific zones for local economic development and provide incentives for investment capital and new technologies to move in. Other tools include SWOT and strategic planning. In many ways locality planning is the heart of what local governments and the public sector are doing in local economic development – it is part of their mandate and speaks to those responsibilities that are mandatory according to local government legislation. In South Africa this is the heart of the integrated development plans .

**Enterprise development** seeks to improve the efficiency and competitiveness of enterprises, economic clusters, value chains, financial and business services. Enterprises include the whole spectrum from large to micro businesses (SMMEs), including both formal and informal enterprises. A wide range of tools have been deployed for assessment of enterprise development and these include business climate survey; business and investment climate assessment; business retention and expansion; economic mapping; participatory appraisal of competitive advantage (PACA); plugging the leaks in the local economy. These tools complement the more standard and formal business tools for enterprise development and management used for formal enterprises. The challenge in Southern Africa and the developing world is that an estimated 70% of the enterprises are informal, operating outside the ambit of the formal regulatory systems and often not captured in official statistics.

**Social and community development** refers to those measures that seek to improve health, education, housing, education and welfare of individuals, households and communities. Ultimately this improves social cohesion, capability and capacities of individuals and organisations and the quality of life. Together with the other components of LED this results in improvements in asset base of individual families and communities, reduced vulnerability and increased food security. In terms of tools the most commonly used are the participatory appraisal of competitive advantage; plugging the leaks in the local economy; local economic development training initiative and Hexagon. Indeed social and economic development is the domain of many public institutions particularly central sector ministries and local governments, especially within the larger municipalities which assume significantly more responsibilities.

**Training, capacity development and technology** constitute a key pillar of LED particularly for the developing world and Africa. This is the arena of human resource development and building both capacities and capabilities in localities and this draws in universities, research and training centers, technology and venture capital companies. The relevant LED tools include: strategic planning; economic mapping; plugging the leaks; value chains; PACA and Hexagon. In the developed industrialised world many more specialised organisations exist to support LED compared to Southern Africa and the developing world where the dependence is on donors and non-governmental agencies to support LED.

## 6.0 Financing LED

As argued in this paper, all spheres of governments are involved in LED with a particular focus on developmental local government as the main theatre of operations. LED in Southern Africa requires the commitment of national government in terms of policy, institutions, financing, planning and implementation. Local governments on their own cannot adequately perform LED as they lack resources, capacities and capabilities. Sometimes specialised agencies have been created for LED – e.g. local development agencies in Mozambique, which are separate from local governments and operate with a special mandate. This is a typical model in the industrialised countries where special agencies like London Docklands have been created with a mandate to develop specially designated areas.

Currently the funding for LED is spread among different agencies and many undertake LED without consciously knowing or labelling it LED. Only in South Africa has clarity been achieved where the Constitution (1996:1) clearly states: “local government must promote social and economic development and must structure and manage its administration, budgeting and planning processes to promote the social and economic development of the community”. This is reinforced under the various legislation from the local government, starting with the transition Act 1993, and through the various development strategies of government including the urban development Strategy 1995 and the rural development strategy 1997. More importantly was the introduction of ‘developmental local government’ in the 1998 white paper, which is defined as: “local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and to improve the quality of their lives”

The white paper calls on local government to provide vision and leadership in development and to encourage approaches such as buying local, accepting your own local social responsibilities, marketing your own local area, investment support, assisting small business, setting up -one stop shops-, promotion of labour based development programmes and the linkage of development to training. All this is reinforced in the Municipal Systems Act 2000 through the notion of 'integrated development planning'- a participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas.

The national framework for local economic development in South Africa (2006-2011) identified the following principles: Local economic development is an outcome of actions and interventions resulting from good local governance and the constant improvement and integration of national priorities and programmes in local spaces, the promotion of robust and inclusive local economies requires the concerted, coordinated action of all spheres and sectors of government centred on the application and localisation of the principles of the national spatial development perspective; local initiative, energy, creativity, assertive leadership and skills will ultimately unlock the latent potential in local economies and will shape local spaces.

The challenge faced in many countries in Southern Africa is the lack of national and local frameworks for LED which undermines the sustainability of many of the uncoordinated ad hoc initiatives undertaken by community groups, development partners and non-governmental organisations (NGOs). It is therefore crucial to advise national and local governments in putting their LED policies and strategies together, so that local initiatives operate in a guided framework.

## 6.1 Financing dimensions for LED

There are two key dimensions to financing LED. First, are the investments needed for public infrastructure and services which are normally provided by central and local government, and second are the economic investments that are targeted for productive enterprises which largely originate from the private sector. Central government finances LED largely through public sector funding provided to sector ministries and departments annually through the national budget. The funding is provided both as recurrent and capital budgets and allows for the operations and investments in schools, clinics, water supply, power, irrigation schemes, training and capacity building. Through fiscal decentralisation local governments play an active investment role in locality development mainly through subventions from the centre but also through local revenue generation.

Private sector investments are channelled through a variety of mechanisms including: commercial banks, microfinance institutions, public private partnership packages, loan guarantees, revolving loan funds and cooperative and community financial organisations. Small, medium and micro enterprises need to access their funding in different ways, and this calls for innovations on the part of planners to support financial intermediation. This goes beyond standard borrowing instruments to more proactive engagement of emerging entrepreneurs, who have no collateral for borrowing and have no formal links with banks.

The challenges in financing LED arise from the dichotomous nature of LED both as a business activity seeking competitiveness and sustainability, as well as community development focusing on social development supporting the poor, disadvantaged and marginalised groups. This has resulted in the distinction made between pro-growth and pro-poor focus. In the former profitability is a key criteria and there is rigorous selection of bankable projects, whilst the latter supports small informal survival projects and group activities through local mobilisation. Both approaches are necessary and important for successful LED, and a balance is needed to be struck particularly given that the majority resides in the informal sector category.

There is little evidence in Southern Africa outside South Africa, of central government transfers directly earmarked for LED to local government, except for donor funds earmarked and channelled through sector ministries or other agencies of government in Botswana, Swaziland, Zambia. South Africa has through the constitution clearly defined spheres of government which receive guaranteed statutory subventions and strongly supports LED at local government/municipal levels. In addition there is a range of financial institutions that actively support LED programmes and projects. These include: Municipal Infrastructure grant; Development Bank of South Africa; Department of Trade and Industry; Industrial Development Corporation; Provincial Development Corporations; and Microfinance Institutions.

The deployment of capital at locality/local government level builds local governance relationships, enhance competitiveness of localities and strengthen financial mechanisms and mediation. **LED is a virtuous spiral of cumulative economic growth resulting in surplus value being created by enterprises, savings accumulation by households and increased appropriation of tax revenues by both local and central governments.** Financing is therefore a key to any meaningful and sustainable local economic development.

Financing the improvement of economic governance requires public sector investment with a focus on both the 'hardware and software' of public sector systems and more effective and efficient functioning of government e.g up-to-date and modern procurement and audit systems; software and packages for improved tax collection and management; systems for budget delivery and management. All this constitutes key investments in making systems work better together with training and capacity building. The bulk of this funding will come from appropriations from both local and central governments. This is also an area that has attracted significant funding and support from multilateral and bilateral donors, non-governmental sector agencies and the private sector.

Financing enterprise development to improve productivity, efficiency and competitiveness, is largely derived from the private sector: banks, microfinance organisations, venture capital and community funding. This funding is generated for and through specific projects, which are found “bankable” and able to generate returns on capital. This is a major challenge for LED promotion because few enterprises/businesses have collateral to borrow business capital particularly in the rural economies and the informal sectors. This has raised the challenge of public sector support and intervention to business and enterprise development, where both central and local governments have intervened to provide the much needed capital particularly at the lower end of the market.

Increasingly, financing LED calls for innovative ways of deploying capital for specific targets and avoiding the disappointment of mixing public and private sector goals in local development. There is need to clearly identify the purpose, source and timing of finance, type of local economic development emphasised and the organisational and governance arrangements. At the lower end of the LED financing chain is the provision of basic services and infrastructure which act as the basic stimuli for development which requires public sector funding and public/private partnership in implementation; at the enterprise levels normal business principles have to prevail and emphasis put on profit making and sustainability. This will guarantee employment and allow for further investments; at higher levels requiring more capital and technology public private mix is essential to guarantee capital and reduce risks.



## **7.0 Local Governments in planning and implementation of LED**

Whilst recognising the roles of other key stakeholders, local governments emerge as central to the implementation of LED, because in most countries in Southern Africa they have the statutory and sometimes constitutional jurisdiction and responsibility for local social and economic development. Local governments are the sphere of government which is responsible for service delivery, and are increasingly being called to address more systematically the economic issues.

Local governments are vested in most countries with powers as local planning authorities which clearly define powers for spatial, economic and social planning. Even where LED is not clearly stipulated or defined, it is implicit in the various provisions of local governments and municipal legislations. Local government laws have provisions for governance: establishment of municipalities, town councils, city/metropolitan councils, rural district councils; for planning and management of the areas under their jurisdictions (built environment/ agricultural areas/ forest areas), for financing local development; for making local bye laws; and for interaction and collaboration with the other spheres of government.

In South Africa LED is a central objective of municipal and provincial planning, and therefore making it mandatory for all the necessary and needed resources to be deployed for LED. In situations and countries where LED is not fully articulated in terms of policy and institutions, actions to support LED through planning and management tend to be indirect, and LED can be viewed as an unfunded local government mandate depending on support from external agencies. It is therefore critical to mainstream LED in the normal processes of planning and to utilise the statutory planning tools, zoning, schemes, and local plans, to support LED. Many local governments are not aware of the potential of the traditional planning tools in leveraging local economic development. Land use targeted for small and medium enterprises is fundamental in the development of business parks and stimulating business incubators.

Effective LED is based on partnership between local governments and the communities. This is established through political representation of elected councillors who articulate community needs in the planning and development of municipal, city and district local governments. Local governments as the local planning authorities have power over land and development permits. They provide the necessary infrastructure and services; housing, health, education, which are critical factors in investors' decisions to locate in a specific area or locality. Local governments prepare plans and engage communities and other key stakeholders in participatory development processes which are all critical in the prioritisation of LED projects and programmes.

Local governments engage the private sector in public private partnerships in service provision and capital development. The private sector represents a variety of actors which have local, national and global linkages. Whilst a firm or enterprise might be located physically in a local government area, real decision making for it might be part of a global chain (if a multinational or even simply in terms of value chains). Engagement with local governments beyond the provision of land and infrastructure might therefore be very minimal, this is the case with resource extraction industries which have limited local forward and backward linkages except for labour and local services.



Local governments need to develop structures that can respond to the challenge of connecting with the private sector and other key stakeholders. Within the framework of local government there is a need to establish local economic development units which are an integral part of the structures of planning and management. LED units are strategically located to coordinate the local government activities and carry out feasibility studies and apply the most up to date tools to LED planning.

Most local governments in South Africa have established LED units which have been actively implementing LED strategies and plans, and have given the necessary visibility to LED as the centre piece of local development. These separate LED units create a distinction between the normal local government functions and the special LED local government functions. LED is therefore recognised as strategic and when implemented in a pro-poor fashion likely to have a significant impact on poverty levels, and creating sustainable incomes for vulnerable communities. This requires developing locally owned and implemented strategies and in most cases “LED ends up being not a thing you do, but a way you do things”- and this is the experience of local government practitioners in Botswana, Namibia and South Africa as reported from their Associations (P3)

An important challenge has been to develop a curricula for LED practitioners – what is it and what should it focus on? In most cases LED has been associated with planning departments but its positioning has been with the Mayor’s or Chief Executive departments to strengthen coordination. LED is therefore viewed as a strategic management tool seeking to coordinate and implement municipal and city development strategies. This is closely linked to improvement in service delivery by putting citizens at the centre, through following carefully thought out steps and strategies; and building capacities of management and staff in different facets of development. Locating LED at the corporate level also enables councils to look strategically at the findings of LED initiatives.

Besides the existence of LED units, local governments are central to the formation of LED forums and round tables. Reports from South Africa, Botswana and Namibia highlight how LED round tables and forums facilitate consultation and partnership between the public and private sectors. Roundtables offer municipalities regular sustained forms of transparent dialogue, create space for feedback and galvanise the working together with stakeholders. Several key issues emerged from a round table about LED in South Africa, Namibia and Botswana (Local Gazette 2012) including: lack of real funding for LED; challenges in land allocation, access and planning permission; general lack of trust between business and government; challenges around municipal tendering, procurement and supply; addressing the needs of the informal sector.

## **8.0 Specific LED initiatives: youth, women, HIV/AIDS& environment**

Increasingly LED is projected through forums and roundtables, and focusing on a variety of thematic issues including: youth, and particularly the issue of employment, training and opportunities in general; women, in terms of gender equality to economic opportunities and empowering women in their local economic engagement and access to finance and services; and environment, including greening of the local economies and local sustainable development.

These various thematic issues are usually the domain of sector ministries and specialised agencies which can easily marginalise local governments in terms of conceiving and implementing LED policies. Sometimes local projects and programmes are directly implemented by development partners and non-governmental agencies. The importance of local economic development platforms is to create an enabling framework for local communities to effectively participate in and initiate the projects and programmes. Experiences in supporting the different thematic areas highlights the potentials and limitations of local governments in delivering the LED mandate particularly given the limitations in resources that are available for business investment, the human resource potential and severe limitations in the developmental mandates.

### **8.1 Youth and LED**

Experience in Africa has shown that the youth challenge is complex and has to be dealt with in a holistic manner. Beginning with schools there is a need to ensure that the curricula is relevant to local circumstances and promotes local economic development. In a predominantly agricultural rural economy there is a need to sensitise the youth of school going age to the challenges and prospects for agricultural development. This tends to be missed when curricula development is centralised and is based on standardised content. There is need for local schools and colleges to be the hubs of local innovations and entrepreneurship.

School leavers are the next important category as they face the job market and are searching for skills to enable them to effectively enter the job market. This is where most failure is encountered because there are no local training facilities for apprenticeships and learning on the job. This usually triggers migration to the urban centres away from the secondary towns and the rural areas.

Local governments are key institutions together with central government in addressing the capacity challenges at local levels. There is a recognised need to invest in training centers, vocational training, microfinance institutions, and giving incentives to existing and new entrepreneurs to engage the youth and impart skills to them. Examples of youth programmes at local government and community levels in SADC show that they are hampered by lack of funding, tools and technical capacities beyond what the donors provide.

## 8.2 WOMEN and LED

Women empowerment programmes usually focus on the goal of achieving gender parity and specifically redressing the historic disadvantaged position of women based on culture, legislation and prejudice. The work of the United Nations (through UNIFEM, UN Women, and UNDP and through most of the agencies) has projected the desire to achieve the Millennium Development Goal in 2015 of: “promoting gender equality and empowering women”. While significant progress has been achieved globally and nationally, there are still many pockets of inequality at local levels which require major attention. One of the important challenges is improving access of women to the economic opportunities in their localities and equipping them with the relevant tools to address the challenges. (UN; UNDP; UN Women)

It is observed that progress has been made in terms of representation of women at national levels in terms of political representation and in government bureaucracies and this has been achieved through setting quotas and having specific and special representation quotas in the respective constitutions. Across Southern Africa progress has been made with respect of women representatives in parliament<sup>5</sup> (i.e. South Africa 44.8%, Mozambique 39.7%, Tanzania 36.0% and Zimbabwe 31.5%) and ranks highly internationally. However this trend is reversed dramatically in terms of participation in the economy, particularly in major businesses and industries<sup>6</sup>. It is also limited at local levels where local cultures, limited education and poverty severely disadvantage women.

Local economic development is therefore critical in lifting the barriers to opportunity and furthering local empowerment of women. The United Nations Capital Development Fund (UNCDF) sponsored in 2008 the Gender Equitable Local development Programme (GELD) which has supported women empowerment through providing local development funds to local governments and supporting innovations in programme development to empower women. The pilot programme covered –Uganda, Tanzania, Mozambique, Senegal and Sierra Leone-and piloted the earmarking of the local development funds to women priorities, which were focused on service delivery and local economic development. Initially the issues of gender had been mainstreamed in the planning process, but evaluations highlighted the need to target women particularly at local level, and give them the necessary tools of the trade to do business, to procure contracts and to compete in the market place.

This GELD programme is being scaled up and replicated nationally in the existing countries and regionally being formulated in new countries, recognising the great need local governments and localities face in addressing gender equality and empowering women. Supporting women empowerment lifts some of the major barriers that impede local development as a whole.

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<sup>5</sup> Women and national parliaments [www.ipu.org/wmn-e/classif.htm#1](http://www.ipu.org/wmn-e/classif.htm#1)

<sup>6</sup> Global Entrepreneurship Monitor 2012 Women’s Report <http://gemconsortium.org/docs/download/2825>

### 8.3 HIV/AIDS and LED

Socio-economic development in Africa cannot be attained without addressing the impacts of HIV and AIDS. The most productive age groups are primarily affected by the epidemic, resulting in depletion of skilled workforces, adding costs and diverting resources. Social safety nets are often failing to cope and the direct and indirect costs of the epidemic are beyond the capacity of most governments in Africa to manage.

Supported by the efforts of programmes such as AMICAALL<sup>7</sup>, the majority of local governments across the region have however recognised the effect HIV and AIDS is having on their communities and have taken the initiative to include HIV and AIDS responses as part of their core business. But local governments in Africa are often poorly resourced and delivery of services to the expectations of their communities is a continuing challenge.

The impact of HIV and AIDS on the local economy can be significant. At the individual level poor health due to the epidemic affects people's productivity. Cost of care increases resulting in less money available for other consumption, meaning lower demand for goods and services and hence lower production and investment. Increased need for care can divert time and effort from other tasks.

Changes to the dynamics of the labour market, reduction in aggregate labour productivity, declines in human capital and additional turnover costs such as recruitment, training and loss of institutional knowledge, are all potential burdens on the economy that can be attributed to HIV and AIDS.

HIV and AIDS also hinders the capability of local authority institutions to deliver services and provide an enabling environment for LED through the impact of the epidemic on the workforce and reduced ability of people to pay property taxes, service charges, etc. The epidemic often forces a change of focus in policy towards health related services and also in community dynamics.

An LED enabling environment in the era of HIV and AIDS can however be created. As a first step it is critical that mayors, councillors and local authority officials understand the impact of the epidemic on the local economy to be able to respond accordingly. Information of HIV prevalence rates, the demographic spread, number of orphans and other local realities are important factors in LED planning.

Mayors, councillors and officials can also become effective leaders of HIV and AIDS responses in their communities through sensitisation, awareness raising, advocacy and local coordination. Local authorities, together with their community stakeholders and development partners, should jointly plan and implement programmes to address the economic impacts of HIV and AIDS at local level, with such planning integral to LED strategies.

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<sup>7</sup> The core programme of the Alliance of Mayors on HIV and AIDS in Africa – *'the Alliance of Mayors Initiative for Community Action on AIDS at the Local level'*. [www.amicaall.org](http://www.amicaall.org)

## 8.4 Sustainable LED

With increasingly fragile regions, changing weather patterns brought about by global warming, and growing recognition of the dangers of over exploitation of natural resources, environmental sustainability is an increasingly important facet of local economic development. Assessing the environmental impact of local development activities is an important first step in limiting or offsetting negative impacts. Increasingly, national environmental policies require all local economic development activities to be assessed for environmental impact as part of the approval process.

However, LED can also be a method to support projects and practices which focus specifically on sustainable development. This can range from sustainable farming, fisheries and forestry practices to recycling initiatives within waste management programmes and ecotourism. Increasingly both national and local governments are working to prioritise these types of activities and link them to work with marginalised communities.

A recent project<sup>8</sup> undertaken in Mbabane, Swaziland exemplifies how environmental sustainability can be enhanced through an LED approach. A range of capacity building and demonstration projects around sustainable environmental management enabled opportunities for income generation for local residents particularly around waste prevention and minimisation, reuse and recycling including composting and production of commercial products from waste materials, sustainable sanitation and climate smart organic gardens. Beneficiaries of these opportunities came from the poorer socio-economic groups within the urban area, and the project is instilling in the people an understanding of the role played by the environment in sustainable local economic development.



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<sup>8</sup> For more information, see

[www.localfinland.fi/en/association/international/north-south/cooperation/salo-mbabane/Pages/default.aspx](http://www.localfinland.fi/en/association/international/north-south/cooperation/salo-mbabane/Pages/default.aspx)

## 9.0 LED operating at SADC and regional economic levels

Local economic development has significant potential at regional economic level (SADC,) given the potential size of the market. However there are significant challenges of market integration, the nature of the regulatory regimes and the need to reform and align the tariff and regulatory regimes. LED at regional level is different from LED at local authority levels in terms of scale, objectives and the substantive issues to be dealt with. Some of the themes that can be addressed at the SADC levels include regional tourism, natural resources and wildlife management; urban corridor development, whilst focusing on building a spiral of cumulative economic growth, poverty reduction and continuous learning remains the same.

One of the key challenges that Southern Africa faces is a fragmented market characterised by small domestic markets with a massive array of prohibitive rules and regulations against each other. This militates against intra Southern Africa trade and promotes the inherited colonial patterns of trade based on extractive industries –mining, plantation agriculture, forestry and fishing- whose markets are the developed and emerging markets outside Southern Africa.

Local economic development is one way of developing an integrated market in terms of an Southern Africa wide (or African continental) perspective and creating a Southern Africa wide market for goods and services; promoting Southern African industrialisation based on the expanded domestic market and enhanced value addition; greater connectivity (roads, rail, air, telecom); reduction of tariffs and barriers across borders facilitating easy flow of human and goods traffic.

Regional LED identifies regional growth zones based on their sector or territorial comparative and competitive advantages, and seeks to enhance them by breaking barriers and building new economic platforms for exchange, trade and production. The borders of the countries form natural starting points in the search for these economic zones/corridors based on tourism; urban and industrial development; population concentration and movement; and transport developments. Other examples of potential regional local economic development initiatives are the transport induced Maputo Corridor (South Africa/Mozambique); Game /wild life/tourism frontier –Mozambique/South Africa/ Zimbabwe/Botswana frontier; and another tourism frontier - Namibia/Botswana/Zimbabwe/Zambia - along the Zambezi.

LED regional initiatives derive their logic from regional cooperation established at the level of the regional economic communities with the necessary governance structures, support policy instruments, institutions and financing. The regional cross border efforts have potential for spurring economic development even though they are sometimes triggered off by political/ civil strife where population movements are the result of current or former tensions and crises. Cross border trade and interactions result in positive economic spin offs as the market for goods and services expand.

The potential for regional economic development is high and likely to attract larger volumes of capital investments than small municipal initiatives. The key challenge is to create an environment which allows for free movement and allowing cross boarder exchange and cross fertilisation of ideas.

There is potential for inter country LED (cross border) across the SADC which arises out the need to deal with inequality, imbalance, poverty and general underdevelopment of many remote border areas outside the main capital cities. There is also an increasing cross border trading which promotes the activities of small and medium enterprises engaged in commerce and taking advantage of currency exchanges. In the SADC the border between South Africa and Zimbabwe is one of the busiest border crossings at Beitbridge/Musina with over 200,000 crossings a day. There is need to develop and tap on the exchange of goods and services across borders and put in mechanisms particularly to benefit small traders. This includes improving the regulatory regime in terms of customs and exchange, services for storage and bonded warehousing, developing the border towns as manufacturing and service centers.

However LED objectives in the SADC are broad and very diverse and have to reconcile the national and international needs including:

- putting mechanisms in place that attract investment nationally, and from the global and external investors (private sector, donors);
- creating an attractive and conducive business environment nationally and particularly in cities and towns;
- promoting good local infrastructure and services at locality/ subnational levels to support and attract local investments;
- value chain development particularly for rural economies;
- generating local wealth and employment nationally.

The actors participating in local economic development in SADC include international agencies, central governments, local governments, local businesses, cooperatives and households. At the regional levels several important dimensions can be identified and this includes: regional growth and trade zones; tourism and natural resources zones (trans-frontier areas) where facilities of several countries are connected and developed as integrated zones. This includes tourism and natural resources zones linking Mozambique, Zimbabwe, South Africa, Botswana and Namibia.

LED is about the spiral of cumulative economic growth resulting in creation of surplus value by enterprises, accumulated savings by households and increasing tax revenues by local and central governments. LED projects are funded out of several channels: normal planning and public sector investment is focusing on locality development; investor driven projects focus on natural resources investments in mining, forestry, agriculture and power; and public private partnership projects.

## **10. Emerging issues and Recommendations**

The non-exhaustive list below gives an indication of some of the key emerging trends and key recommendations emerging from this desk based study. We welcome comment and discussion of these both at the forth coming regional meeting in Malawi and afterwards.

### **10.1 Meaning and approaches to LED**

- There no shared understanding of the meaning, approaches and scope of LED among various stakeholders at national and local levels which has led to varying results and limited development impacts from LED efforts. LED efforts in Southern Africa have generally taken the pro-poor project approach which has tended to limit the impacts of efforts to poverty alleviation as opposed to a planned and pro-growth approach which focuses on the wider development of localities.

#### **Recommendations**

- There is need for a general understanding of the meaning of LED and agreement on the approaches among local, national and regional stakeholders which will ensure that LED efforts result in the best development outcomes. Stakeholders are encouraged to strike a balance between the pro-poor and pro-growth approaches to LED to ensure that LED efforts result in inclusive growth for local economies thereby creating jobs to contribute to poverty reduction. In addition, adopting a planned approach to LED enables local governments to mobilise stakeholders and resources and maximises the potential of the locality for better and sustained development outputs. LED needs to be regarded as an approach or a “ way of doing things”

### **10.2 Policy Issues**

- Most Southern African countries do not have LED frameworks to guide LED planning and implementation. This has resulted in the implementation of ad hoc and isolated projects which are not integrated and coordinated with other local government and economic policies and programmes.
- LED is a growing phenomenon whose adoption is closely linked to the promotion of national decentralisation policies and constitutional strengthening of local governments.
- LED in Southern Africa is being prioritised in planning local and national development programmes which are responding to the growing demand for jobs and services from the citizens and local communities.

#### **Recommendations**

- National governments are encouraged to develop LED frameworks which will guide LED planning and implementation at the national level. Policy frameworks will assist in clarifying the roles of stakeholders in LED, ensure the integration of LED efforts with decentralisation polices, key economic policies, strategies and programmes and the coordination of key stakeholders including government business and communities.
- LED policy has to be closely linked to urban and rural development policies to ensure complementarity and synergy
- LED policy has to accommodate and incorporate special zones, sector planning and thematic planning.



### **10.3 Institutions**

- In general, and in most of the Southern African countries LED is not a mandate of local government despite the changing role of local government from being a provider of services to playing a more developmental role. This has led to lack of funding and lack of role clarity which has relegated local governments to implementing projects rather than acting as facilitators of development at the local level in many cases.
- LED is generally not institutionalised at the various government levels in Southern Africa. More emphasis has been placed on structuring LED at municipal levels where projects and programmes are implemented.

#### **Recommendations**

- Institutionalisation of LED through the regulatory and legal frameworks is a priority in all the countries adopting LED policies
- There is need to find an appropriate location for LED operations at the different levels of government.
- There is need for capacity building for institutionalising LED has been adopted as part of mainstreaming planning and development in Botswana, Zambia, Malawi, Lesotho and South Africa. The role of development partners and local government associations has been crucial in the process.

### **10.4 Capacity to plan and implement LED**

- Local government typically plays a crucial role in LED which includes: data gathering, facilitating stakeholder involvement, coordinating the planning and implementation of LED, monitoring and evaluation of LED and communicating LED outcomes. For local government to effectively play this role, it needs capacity. Local government capacity in general and in LED in particular is a challenge in Southern Africa.
- LED programming is a medium term initiative (5-10 years) requiring strong political support, clarity and elaboration of policy, institutions, financing, business development, learning and capacity building, and real transformation of people's lives on the ground.
- LED projects emanate out of the processes of local empowerment and public participation embedded in local planning and decision making.
- In Southern Africa LED promotes both rural and urban development and calls for diversity in analysis and application of a wide range of tools derived from urban planning, regional planning, rural development and business development.

#### **Recommendations**

- There is a need to determine a curriculum for professionals, and the positioning of LED within both the central and local government bureaucracies. In the end it is important to emphasise LED as a multidisciplinary initiative seeking a holistic transformation of local economies to improve the lives of ordinary citizens.
- There is need for capacity development programmes to support local government's role to plan and implement LED thereby facilitating local development.

## **10.5 Financing LED**

- Financing LED is a major challenge that countries face and there is a need to connect LED to public sector investment funding particularly for locality development

### **Recommendations**

- One criteria for public capital investments for infrastructure should be the impact on local economic development.
- LED has to promote and stimulate public and private sectors partnership, and engage private finance institutions to review current finance and banking models in line with the challenges of dealing with the informal sector.
- There is a need to engage the private sector fully to ensure it subscribes to local development and local economic initiatives.
- Need to work out packages that can make a difference for local businesses which are small and undercapitalised.

## **10.6 Knowledge and Learning**

- LED experiences are currently not well documented in a way that promotes learning from good practice. LED outcomes have also not been systematically communicated to stakeholders at national and local levels.

### **Recommendations**

- There is an urgent need for more documented case studies on LED to distil policy and implementation experiences.
- There is need for more in-country and cross country exchanges to promote learning. Good examples of such initiatives include CLGF's Good Practice Scheme, the P3 initiative as well as other work by SALGA, LEDNA and others.
- Need to learn from and compare the interventions supported by development partners which have tended to be area and sector based

The following two annexes highlight LED in action and some of the lessons being generated on the ground. The key lesson learnt is that LED is 'a way of doing business' which help local authorities to go beyond basic service delivery. It is also clear that meaningful LED emanates from local governments that function and good service delivery is a key attraction factor for local economic development.

## **Annexe I Lessons from the 3 P's –partnership, participation and progress-supported by SALAR, SALGA, ALAN and BALA**

Important lessons on implementing LED have emerged from the experiences of local government associations implementing the three P's programme which began in August 2009, covering 13 municipalities in South Africa, six in Namibia and six in Botswana, covering three focus areas: Municipal Finance; Service improvement; and local economic development. The project lasted for three years and the results have been captured in short stories and anecdotes in "the Local gazette" from local practitioners and researchers.

In municipal finance it was observed that financial transparency and communication on the part of local governments builds better relations with the community and other key stakeholders, and that the setting of tariffs for services is a challenging issue requiring municipalities to have up to date information through surveys and constant and effective communication with the community. Setting municipal tariffs in South Africa is a legislatively required process under the municipal systems act (2000) and municipalities work hard to achieve compliance without engaging the communities who need to be involved so that they own the process and can be accountable.

Municipal finance links closely with both service delivery and local economic development in terms of developing a culture understanding the workings of finance –"if people know what they are paying for, they are more willing to pay..." In Namibia they have pushed for participatory budgeting ensuring that citizens understand the standard budget model whose objectives include the following elements: clarity of roles and responsibilities; public availability of information; open budget preparation; execution and reporting and assurances of integrity. A good practice in municipal finance encourages economic health of local governments and communities.

Service improvement is about enabling citizens' right to have insight into decision and communication around processes associated with service delivery; consulting with citizens around their expectations and addressing their real needs; ensuring their entitlement to same treatment and providing services that are value for money and with service commitments to the local communities. Experience in the three countries (South Africa, Botswana and Namibia) show the importance of putting on the customer's glasses and how much service improvement is about communications and information. For service improvements to take place several areas were identified: capacity building in policies, procedures and processes; making local authorities competitive and developmental; striving for financial viability; and narrowing the gap between community expectations and realistic delivery capacity.

The example of Namibia showed how service delivery improvement brings about a paradigm shift in the functioning of local authorities. The new actions included:

- one service point for building plans; proactive approach to serviced land delivery;
- effective methods for debt collection; and
- means to improve public communication to the customers with the new tools of communication.

In Botswana three areas were identified as missing pieces for turning municipal service improvement reforms into success:

- the tendency of central and local government officials to turn service improvement processes into simply compliance;
- the lack of capacity to implement home grown service improvement initiatives, resulting in dependence on donors and consultants; and
- the lack of effective leadership to adequately prepare, define and communicate change.

Some of the issues raised from business surveys in the three countries are:

- reduction of rates and service charges; simplifying building and land processes; maintaining key economic infrastructure; providing access to serviced industrial land;
- promoting local procurement and deepening the backward and forward linkages;
- creating local business directories; improving public safety and security;
- improving frontline services online payment of accounts; and
- keeping the cities clean and orderly.

Therefore growing local economies is closely aligned with improving the functionality of local governments and local business development. The P3 experience in South Africa, Botswana and Namibia has demonstrated the empowering importance of the LED strategy development tool for municipalities and the importance of “local buy in” rather than simply parachuting experts and consultants from outside.

## **Annexe 2 UNCDF Local development funds promoting LED through local governments**

The UNCDF has been providing capital funds (grants) and technical assistance to promote local development through local governments. Local development has been defined to include: local finance; local infrastructure and service delivery; local environment; local economic development; and local institutional development. The key to the model has been supporting decentralisation through enhancing participatory planning and development, and fiscal decentralization. However once the model is in place, there is a greater demand and focus on local economic development to promote local employment and wealth generating. LED has followed the classic steps of promoting locality development, business development, community development and training and capacity building.

In Southern Africa the pilots have been tested in Malawi and Tanzania – as well as outside Southern Africa in Sierra Leone, Uganda, and several key lessons have been generated: the need to introduce LED strategically at national policy levels ensuring that all the key stakeholders are engaged; the need to connect with the private sector through business forums and to initiate local finance mobilisation with local banks and other finance institutions; mobilise and engage the local communities through capacity building workshops and formulating specific projects on the ground. The main challenge identified is the availability of LED funding for start-up projects and development of the relevant infrastructure for locality development –this requires active engagement of central government agencies like the investment centers, development banks; venture capital; and encouraging existing business to grow. In reality the tendency has been to depend on donor funding, which poses problems of sustainability and long term transformation. There is also a major challenge in terms of engaging and capturing the informal sectors and micro level enterprises, given their lack of formal registration and rapidly changing nature. UNCDF continues to support policy, institutions and funding in the pilot programmes.

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