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**THROWN ONTO THEMSELVES: LOCAL GOVERNMENT AND
COMPETITIVENESS IN THE EASTERN CAPE, A SOUTH AFRICAN CASE**

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LIST OF ACRONYMS

ASGISA	Accelerated And Shared Growth Initiative of South Africa
BCM	Buffalo City Local Municipality
BEE	Black Economic Empowerment
CDE	Centre for Development of Enterprise
CPA	Cape Provincial Administration
DHLG&TA	Department of Housing, Local Government and Traditional Affairs
DLA	Department of Land Affairs
DM	District Municipality
DOR&T	Department of Roads and Transport
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
DWAF	Department of Water Affairs and Forestry
ECDC	Eastern Cape Development Corporation
ECO	European Consultants Organization
ECSECC	Eastern Cape Socio-Economic Consultative Council
FMS	Financial Management System
FDI	Foreign Direct Investment
GEAR	Growth, Employment and Redistribution Strategy
HR	Human Resources
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IDT	Independent Development Trust
IMF	International Monetary Fund
LED	Local Economic Development
LGSETA	Local Government Sector Education and Training Authority
LGSF	Local Government Support Fund
LRIS	Local Regional Innovation System
MDB	Municipal Demarcation Board
MIG	Municipal Infrastructure Grants
MFMA	Municipal Finance Management Act
MOU	Memorandum of Understanding
NMBM	Nelson Mandela Bay Metropolitan Municipality
PDI	Previously Disadvantaged Individual
PMS	Performance Management System
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
SAP	Structural Adjustment Programmes
SMMEs	Small, Medium and Micro Enterprise
StatsSA	Statistics South Africa
USA	United States of America

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Abstract

Competitiveness has become a pervasive mantra in national and regional economic analysis around the globe. South Africa is no exception. How to build or exploit competitive advantage of firms and localities is what is of concern everywhere. Within local government circles, the pursuit of competitive advantage has grown in the local economic development approach to shift from past efforts characterized by small scale, stand alone projects, which have limited chance of sustainability to more long range systemic interventions. With a more prominent and cohering role, local governments in the Eastern Cape grapple with how to address the competitive challenges of their economies in different parts of the Eastern Cape. In exploring this question, the research findings reveal that lack of access to roads, land reform and land tenure problems, lack of access to agricultural produce markets and a shortage of skills, are the key competitive challenges facing local economies across the Province.

Plagued with many disadvantages and given the fact that most of the competitive challenges local governments are facing largely fall beyond their control position, the research concludes that local governments are 'thrown onto themselves'. This research argues that local governments should not be criticized for the nonperformance of the real stakeholders of competitive challenges. A key conclusion of the findings is that alone, local governments will not be able to address the competitive challenges posed by their economies. The research recommends that central government and other actors should play an intervening role, particularly in the former homeland areas of the Eastern Cape Province. Local government's capacity to convene other actors to bolster competitiveness of their economies is considered a critical step in the right direction.

1. INTRODUCTION

1.1 STATEMENT OF THE PROBLEM

The notion of competitiveness has become a widespread concern among local, regional and national authorities throughout the world. Policy makers at all levels have been swept up in this competitive fever, yet there is no consensus regarding what is meant by the term and how it can be observed. The United States of America (USA) led the way in the early 1990's by establishing a governmental Competitiveness Policy Council, likewise the European Council of Competitiveness of the European Commission was set up subsequently. Both Councils were founded in order to enhance the competitiveness of the American and European economies among other things (Krugman, 1994).

Nevertheless, the concern for competitiveness has not just been at a macroeconomic level, but has quickly spread to the regional and local levels (Kitson et al, 2004). In fact, what shifted was the view of competitiveness as an essentially micro-economic issue. It went from a concern on exchange rates (macro) to research on the firm (micro) and later on how firms clustered and established non-market relations (meso). In this respect, performance of economies has assumed significance within government circles identifying key determinants of regional competitiveness with a view to formulating policies and devising interventions that promote and foster those determinants. Thus, in the same way, local governments are increasingly concerned with constructing competitive indices so as to compare the relative standing of their localities with that of others and to craft strategies that will move their area up the competitive league table.

As in other countries, competitive approach to local economic development (LED) in South Africa is increasingly being recognized as instrumental in addressing rapid global challenges on the one hand and strengthening the economic well being of citizens on the other. How local governments can address competitive challenges of their economies is what begs the question in the country and the Eastern Cape Province in particular. With 64% to 78% of its households living in poverty and 48% unemployment rate, the Eastern Cape is characterized by among other things limited

autonomy, scarce resources, and weak capacities at local government level (ECSECC, 2002)¹. On the economic front, there is no level playing field as some localities pursue economic growth from a more promising and potentially productive starting point than others and is implicit in economic indicators demonstrating that the majority of localities in the Province have weak or declining economic bases centered on subsistence agriculture. With respect to LED, local governments in the country are being urged to play a more prominent role, that of creating favorable conditions for other actors in order for economic development to flourish. Considering the many disadvantages certain parts of the Province have and the local government history in South Africa, are they not being set up for failure? Will these deficiencies not forever erode the full exploitation of their competitive advantage potential? Should other spheres of government not play a more intervening role, particularly in certain parts of the Eastern Cape?

1.2 BACKGROUND TO SOUTH AFRICA²

Over the past few decades, the world has been characterized by increasing internationalization and globalization of economic activities. This is motivated by the neo-liberal development paradigm, which among other things promotes advances in communication and transportation technology, combined with free-market ideology leading to unprecedented mobility of capital, goods and services. More specifically, this process offers opportunities for local businesses to develop new markets, but also presents challenges from international competitors entering local markets (Goga et al, 2004) in (ECSECC 2004). Throughout the world, opinions are firmly divided over whether the impacts of growing exposure of the African economy to international competition are positive or not, and these vary according to the beliefs of the protagonists.

As with the failed Structural Adjustment Programmes (SAPs) predictions of 'trickling down' benefits to all, globalization is characterized not by a spreading out of wealth and well-being, but by growing imbalances between rich and poor

¹

² Map attached, see Annexure A

countries, between geo-economic regions and between people within countries. As de Campos Guimaraes expressed it, *"The logic of globalization is not only a logic of integration; it is also a logic of exclusion and differentiation, some parts of countries become linked into the world economy while others are de-linked from global flows and remain invisible or irrelevant until a war or disaster or crisis brings them briefly into the focus of national or international attention"* (de Campos Guimaraes, 1998 pp 28). On the whole, a central theme for the globalization opponents is the unjust nature of market based competition, especially when weak countries are forced into competition with stronger highly advanced ones (CDE, 2005).

Not surprisingly, the global restructuring has been reflected in political turbulence and shifts in the macro economic policy of developing countries. This too, is the case within South Africa, the post-apartheid political landscape has been shaped by a response to the pressures of global change and their obvious neoliberal shift. The elements of both the results and the means to achieve global integration typically included the following; a decline of industry, shedding of jobs, privatization, mechanisms to generate manufactured exports, removal of tariffs protecting domestic industry, high rate of unemployment and a deepening of inequality and social dislocation (ECSECC,2002). Of particular importance, the international reintegration promoted the shift from the pro-poor Reconstruction and Development Programme (1994-1996) to the pro-market Growth, Employment and Redistribution Strategy (1996 – to current period). The point of departure for the Reconstruction and Development Programme (RDP) was the end of the apartheid era. RDP as its name suggests sought to transform, develop and reconstruct the lives of South Africans. One of its central arguments was that the market would not end structural problems and proposed the need to shift to more equitable, job creating types of interventions. In this regard, the importance of production for the domestic market both to build productive capacity and to support greater equity was stressed (Bond, 2001). While export led growth is important, the argument of the RDP was that by itself it would not create adequate employment and meet the basic needs of the many previously disadvantaged South Africans. Against this backdrop the RDP emphasized issues such as land reform, support for small, micro and medium enterprises (SMMEs), cooperatives as well as expansion of basic infrastructure, housing, education, wealth and health care for the poor. In contrast to the RDP's commitment to driving

balanced growth through redistribution, the Growth, Employment and Redistribution Strategy (GEAR) sought to constrain government spending. On the whole, GEAR focused explicitly on accommodating forces of globalization and to making South Africa competitive and attractive to international investors.

Since 1994 the country has made undeniable progress in many critical areas. For instance, on the political front, democracy institutions were created, a new constitutional dispensation was established that allows for three spheres of government and a wide range of socio-economic rights to which South African citizens were entitled. While on the economic front GEAR has managed to restore and maintain macro economic stability in the difficult global environment, the strategy did not take full account of the human development consequences that came with it. In a nutshell, criticisms of GEAR center mainly on the failure of the strategy to reach its job creation, economic growth and redistribution targets among other things (ECSECC,2002).

The year 2005 saw a significant shift in the approach of government to addressing growth and development in the country. The launch of ASGISA, (Accelerated and Shares Growth Initiative of South Africa) affirmed a process of exploring what would constitute a developmental state and how a developmental state could intervene to unblock obstacles to economic development while ensuring that the benefits of accelerated growth are shared by the poorest and most marginal sectors of society. ASGISA is seen by its proponents as an attempt to deal with a decade of state underinvestment in infrastructure while acknowledging that the current socio-economic growth path has not adequately addressed the needs of all South Africans, thus where there has been economic growth it has not been shared. For the Eastern Cape ASGISA's core initiatives include the Umzimvubu and Forestry and Timber Industries Expansion Project. The argument is that these two projects are critical to unlocking the potential of the most underdeveloped regions of the Province.

One key element of restructuring for globalization has been a shift in the burden of responsibility for economic development from central to local government level and of the promotion of LED across the world. Over and above this, in South Africa LED has been recognized as one of the most significant development options to deal with

post apartheid socio-economic challenges and heightened pressure on local economies from global market forces. In a nutshell, LED is premised on creating and exploiting economic opportunities to respond rapidly and creatively to changing circumstances and to enhancing the economic well being of communities.

1.3 THE EASTERN CAPE CONTEXT³

In order to conceptualize the economic character of the Eastern Cape Province and how it has unfolded over time, it is important to highlight the role the Province played in the history of South Africa.

The Eastern Cape is situated in the south-eastern part of South Africa. Its population stands at an estimate of 6 436 763 in 2001 of whom 65% is predominantly rural, with pockets of highly urbanized populations (StatsSA, 2001). The Eastern Cape context reveals a stark division that reflects the consequences left by the apartheid system in the country as a whole. In this regard, the Province continues to be divided into two distinctive areas - the former homelands on the one hand and the part of the province claimed and owned by white settlers, referred to as the Republic of South Africa (RSA) on the other. The apartheid system established the two former homelands of Transkei and Ciskei, as suppliers of migrant labor for the core areas of the country particularly where mining was dominant. The decline in the mining sector in South Africa posed a challenge for the Eastern Cape economy, in particularly the former homeland economies due to their dependence on remittances and subsequently on social grants (PGDP, 2004).

The Eastern Cape has been classified as the second poorest Province in South Africa. Even though poverty is highly evident throughout the Province, very large pockets of poverty are found in the former homelands, particularly the former Transkei area. More precisely, figures vary from 64% and 78% of households living in poverty in the Province. As poverty is linked to unemployment and illiteracy levels, the Province records very high rates of unemployment (48%) and illiteracy (42%). The HIV

³ See map attached as part of Annexure A

prevalence remains high with the 20-29 age groups the most affected throughout the Province (PGDP, 2004).

Despite the achievements to address the uneven allocation of resources, there have been only modest, though marked improvements in the roll out of basic services. Backlogs and challenges remain, particularly in the former homeland areas. For instance, with respect to water and sanitation around 31% of the population relying on natural sources of water, such as untreated springs, streams, rivers and dams, and about 33% of the Eastern Cape household population has flush toilets. Further, 49% of the Province is electrified and 41% of housing units are formal houses or brick structures on separate yards or stands.

With regards to local government transformation, South Africa had its first local government elections in 2001. The country has two 'tiers' of local government: District Municipalities (DMs) including Metropolitan Councils (Metro) and Local Municipalities (LMs). More specifically, the Eastern Cape consists of five DMs, one Metro and thirty eight LMs. Five of the DMs contain local municipalities that are in the former homelands (Alfred Nzo DM, Amathole DM, Chris Hani DM and OR Tambo DM Ukhahlamba DM). The Metropolitan municipalities are single-tier structures entitled to exercise all the powers and functions granted to local government in the Constitution. District municipalities, on the other hand, have to share powers and functions with the Local municipalities that fall within their area. Traditionally, District Municipalities had had very limited functions including the allocation of capital grants (derived from their levy revenue) to municipalities, and management of a few district-level 'bulk' functions (e.g. large-scale water supply). The trend changed after the promulgation of the Municipal Structures Act (1998; 2000). Section 83(3) of the Structures Act describes the developmental mandate of District Municipalities, in terms of four objectives:

- To ensure district-wide integrated development planning;
- To provide district-wide bulk services (roads, water, electricity and sewage disposal) ; facilities (fresh produce markets and airports, cemeteries and crematoria, public works); economic development (promotion of tourism)

- To build the capacity of local municipalities, and
- To promote the equitable distribution of resources between local municipalities (RSA,1998)

It goes without saying that the imprint of apartheid segregation in South Africa has left devastating consequences for local government in the country as a whole. Some of the challenges faced by municipalities in the Eastern Cape include; scarce resources, limited autonomy, weak capacities, confusion about roles and responsibilities.

In a nutshell, the Eastern Cape situation shows a weak economic base surrounded by growing numbers of poor and unemployed people in the former homelands, while former CPA areas have relatively prosperous economies well connected into global systems through export manufacturing industries. Against this backdrop, South Africa incorporates international trends towards local promotion of economic growth on the one hand and also includes a distinct and strong focus on poverty alleviation to deal with the apartheid legacy on the other.

1.4 RESEARCH OBJECTIVES

The research has the following objectives;

- To identify areas of intervention by local government to gain competitive advantages of their localities.
- To identify areas where it can mobilize support of other stakeholders to help them towards creating/enhance competitive advantage

1.5 RESEARCH QUESTIONS

1.5.1 Main question

To what extent can municipalities in the Eastern Cape address the competitive challenges of their economies?

1.5.2 Sub questions

- What are the challenges that localities face in enhancing competitive advantage in the Eastern Cape?
- Which of the competitive challenges can local governments address, and which ones are out of their realm?
- What set of minimal requirements do local governments need in order to build or exploit competitive advantages of their economies?
- What can other actors do to help strengthen capacity of local governments to respond to competitive challenges?

1.6 RESEARCH METHODOLOGY

The research made use of primary and secondary data drawn from two different studies in the Eastern Cape; namely;

- An analysis of competitive advantage in the Eastern Cape (Competitive advantages and constraints in the jurisdiction of each local government, demands for local government action)
- Municipalities and LED in the Eastern Cape – (Local government capabilities in LED in the Eastern Cape)

Funded by the European Union, the former was undertaken by the European Consultants Organization (ECO) and the latter by the Provincial LED Support Programme now referred to as Thina Sinako LED Programme under the management of the Eastern Cape Socio-Economic Consultative Council (ECSECC). ECSECC is a public entity that provides policy, research and strategic planning support to government, non governmental organizations, organized business and organized labor.

1.7 INFORMATION SOURCES

For the proposed study, the researcher has utilized secondary as well as raw data from recently undertaken EU studies. Secondary data collection is a combination of content analysis of archival material and documentary sources such as policy documents, government reports, media, 'grey literature' and municipal documents.. Content analysis of literature on comparative international experiences was carried out. Most notably, among other authors is the work of Blakely (1989), Helmsing (1999, 2000, 2001, 2002 and 2003), Porter (1998, 1990, 2002), Krugman (1991, 1994, 2001), Cagmani (2002), Turok (2004). A number of authors have also specifically looked at the new role of local government in developing countries Helmsing (2002 and 2003), Awortwi (2004), Hindson (2003), Rogerson (2002) etc.

1.8 PRACTICAL PROBLEMS IN CARRYING OUT THE RESEARCH:

Due to the limitation of data from the two studies mentioned in the research methodology section, the research drew information from other relevant studies and plans. More specifically, additional information was sourced from DMs and Metro Local Economic Development (LED) plans; Integrated Development Plans (IDPs) and the Eastern Cape Industrial Sector Study prepared by the Urban Econ Foundation for ECSECC.

In addition, the ECSECC is currently facilitating Growth and Development Summits (GDS) for all District Municipalities in the Eastern Cape. The aim of the GDSs is to involve different stakeholders in each DM and Metro on where the growth and development path of their areas are situated. Secondly it is to agree on key priority programmes that will boost their local economies and finally to strengthen IDPs of which LED is the component. In this regard, the research also drew information from GDS planning workshops that have already taken place in two District Municipalities and the Metro (Nelson Mandela Metro, Chris Hani DM and the Amathole DM) The aim was to triangulate and strengthen the chapter on competitive challenges in the Eastern Cape.

1.9 ORGANISATION OF THE RESEARCH

The report is organized according to five separate, but interrelated chapters. The first chapter provides the scope and background of the research. The impetus for competitiveness and local government in South Africa and the Eastern Cape in particular is also explored. The research objectives and questions are discussed followed by the research methodology. Chapter two presents a review of background literature which forms theoretical and analytical frameworks. The concepts of LED, the role of local governments in LED, Competitiveness and Competitive advantage are examined. Further, an analytical tool is presented, derived from the works of Honadle and Cooper (1989) both of whom looked at the issue of stakeholder beyond coordination and control to include appreciation. The paper utilizes the authors' ideas and further incorporate the researcher's own ideas with a view to gauging stakeholders relative importance, their interests and objectives. Chapter three sets the ground for analysis. It begins with the identification of stakeholders in LED in the Eastern Cape. This is to identify the key companies and institutions that should be targeted in striving to address the competitive challenges of local economies. It then utilizes the Honadle and Cooper stakeholder tool to analyze the findings and to position local governments with respect to competitive challenges. Chapter four gives a background to the LED policy context and how it affects local governments in South Africa. Further, it looks at the key local government capability challenges in delivering LED in the Eastern Cape. The last chapter, which draws a conclusion, explains the major findings, a synthesis of these with respect to what is elaborated on in the theoretical framework and analytical framework and provides some recommendations.

2. THEORETICAL FRAMEWORK

2.1 LOCAL ECONOMIC DEVELOPMENT

There is a wide recognition that the context for LED policy in the South is different from that prevailing in the developed North. Helmsing's work has been influential in taking the LED debate further and includes elements such as local control, mobilization of actors, assembling of resources, generation of new institutions and the role of government in relation to how LED unfolds in the less developed areas of the South (Helmsing, 2001). Given the purpose of the research and its focus on local government and competitiveness, this section draws heavily on this author's work. Besides Helmsing, Edward J. Blakely is among the key scholars in the LED academic debate. Both authors provide some useful contributions with regard to typologies and different contexts within which LED can be applied. According to Blakely (1989), there is currently no theory or set of theories that explains LED. In his view, there are a number of partial theories that explain the need for engaging in the subject. This makes LED a fluid concept with different definitions and interpretations.

He defines LED as; *"a process by which local government and/or community-based groups manage their existing resources and enter into new partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in a well-defined economic zone (Blakely:1989 pp 58)."*

Blakely's definition emphasizes local control, mobilization and utilization of local resources, mobilization and interactions between actors among other things. This is based on the 1970's economic recession which took place as a result of the energy crisis in the United States of America (USA). The need to cut back in the public sector, and especially the enormous size of the inevitable retrenchments, resulted in major unemployment, among other things. Localities saw no option but to come to the fore and address their jobless situation with a view to increase their economic well-being.

Looked from a different angle, Helmsing (2001) draws a distinction between three main categories of LED initiatives, namely

TABLE 1: LED CATEGORIES		
CATEGORY	FOCUS	ACTIVITIES
Community economic development	diversification of household economic activity to increase livelihoods and reduce poverty and vulnerability	provision of support to survivalist or home-based informal enterprise (both urban and rural)
Business or enterprise development	suite of initiatives that would directly target support at either individual enterprises or at enterprise clusters	specialization, removing obstacles towards, specialization, growth and performance.
Locality development	Complements both community economic development and business development. focuses on overall planning and management of economic and physical development of localities	planning and realization of infrastructures and of relevant economic and social capital, institutions, positive externalities

(Helmsing, 2001)

Moreover, Helmsing's view on LED is among other things premised on its multi actor, multi sector and multi level character. The emphasis here is on the mobilization of other actors be it private, public and non-profit. In addition, Helmsing considers LED as not only referring to local institutions, but also to the decentralized sector and national agencies. (Helmsing, 2001, 2003). Lastly and more on the point of this research, when local institutions are not capable of performing their tasks, national agencies can play vital complementary and enabling roles. In a nutshell, his take is

that horizontal networking should be complemented with vertical networking to access other spheres of government, institutions and resources (Helmsing, 2001).

2.2 ROLE OF LOCAL GOVERNMENT IN LED

According to Helmsing (2003), several factors have contributed to a more prominent role for local government. Firstly, the decentralization process that has occurred in the public sector brings a concern for LED, secondly, the alternative modes of delivery such as public private partnerships that occurred as a result of the transfer of power to local governments., another factor is the realization that local governments have a role to play in income generating activities and poverty reduction strategies, fourthly, the acknowledgement by some national governments of the need to be responsive to people's needs to increase their economic well-being., finally, pressures in search of appropriate responses (Helmsing, 2000). In this regard, Helmsing's identifies five roles of local government in LED.;

- Service delivery by local governments potentially provide of a source of economic opportunity
- Delivery of services may enhance or inhibit LED and competitiveness
- Orderly territorial development, through physical and land use planning and development control reduces uncertainties about negative externalities which may affect investments by households and firms
- Local government's capacity to convene other actors to define local public interest and direction of LED
- Facilitation of other actors by local governments to make effective contribution in the local economy. (Egziabher and Helmsing, 2005)

As a means to deal with the apartheid consequences of the location of the poor in townships far away from economic opportunities and urban infrastructure, local governments in South Africa are required to take a developmental approach. When it comes to LED, besides the RDP document, two key policy documents, the White

Paper of 1998 and Policy Guidelines on Local Economic Development of 2005 outline the approach to LED and what role local governments should play. The White Paper states that *“Local Government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities (RSA, 1998 pp 22)”*

The Policy Guidelines on implementing LED 2005 puts it as follows: *“The central focus of government in implementing LED must be on creating an ideal environment for private sector investment through appropriate public sector investment and by supporting the retention, growth and development of enterprises be they private or co-operatives and whether they are small, medium or large. (RSA, 2005 pp 12)”* “

The core argument that runs throughout the two documents with respect to local governments' role in LED is that, they must play an enabling role. Central to the notion of enablement is that when local governments are incapable of delivering services, they should create favorable conditions for other actors to deliver services on their behalf. This new approach refers to the state being required to give a helping hand to motivate other actors to function effectively and efficiently (Awortwi, 2003). This implies a radically different role for government, moving from its traditional role of direct provision to facilitation of the efforts of others through a complex system of policy making (UNHS, 1993; Burrell & Gray, 1999 in Awortwi, 2003). In this regard, local government is seen as one actor among many. By the same token, Blakely argues that whether affluent or less endowed, local governments, community institutions and the private sector need to realize they are essentially partners in economic development (Blakely, 1989).

2.3 COMPETITIVENESS AND COMPETITIVE ADVANTAGE

2.3.1 Introduction

One of the most important trends in the world economy in recent years has been the globalization of economic and business activity. This is one of the reasons the notion of competitiveness has been elevated because of the increasing international mobility of capital and more open national markets (Turok, 2004). While a large body of literature suggests that the globalization of economic activities diminishes the role of localities and that of government, Krugman (1991) and Porter (1998) tend towards opposite conclusions. Both authors contributed to the recognition of the fact that place and space matter in economic growth. Their starting point in this kind of debate is an industrial agglomeration, clusters in other words. There are different reasons for the emergence and existence of clusters including the historical, coincidences and natural geography. For the purposes of this paper, clusters are referred to as the geographical concentration of interconnected firms and institutions in a particular field (Porter, 1998). To a large extent, the focus on clusters was triggered by the shift on competitiveness's focus from macro and micro to meso level with particular emphasis on the relationship between firms and the immediate environment within which they operate. Besides market size effects, Krugman considers the locality's ability to attract mobile resources including entrepreneurs, capital and skilled labor as what the development opportunities of an area are premised on (Krugman, 2001). In other words, such factors together with knowledge and information flows, transportation costs among other things are said to be what can set the area on either a virtuous or a vicious path. This is to say, while what is happening inside the firms is important, clusters reveal that such factors and externalities created by the immediate business environment are important.

Lastly and more on the point of this research, state and local governments' economic policies have a critical role to play in relation to key assets and externalities that can contribute to a firm's performance. More so because some externalities may fall

outside the competency of local governments, in which case there is a need to mobilize support from other spheres of government (Barca, 2003). Equipped with this view, the following section will unpack further the notions of competitiveness and competitive advantage.

2.3.2 Defining Competitiveness and competitive advantage

As noted above, globalization engenders a competitive climate within which regions and not just firms increasingly find themselves competing for economic activities to create local employment and income. However, Krugman's provocative view on this front is widely known. He argues that regions do not compete as firms do as they do not go out of business (Krugman, 1994). On the contrary, Cagmani (2002) and Martin and Tyler (2003) in Budd and Hirmis (2004) take a view that says regions do indeed compete on the following three instances;

- For investment through regions' ability to attract capital be it foreign, private or public.
- For labor by being able to attract skilled employees, entrepreneurs and creative workers, thereby enabling innovation environments within local labor markets.
- For technology through regions' ability to attract knowledge and innovation activity.

As noted from the above assertions, the notion of regional competitiveness is a complex and contentious one. Given this, there is no consensus on what is meant by the concept and how it can be observed. In fact competitiveness and competitive advantage are sometimes used interchangeably. The concept of competitiveness at the regional or local level seems to be amorphous. Localities are comprised of many industries, various population groups, social, physical and strategic infrastructure. Firm competitiveness which is prevalent in much of the literature is said not to fully represent competitiveness or cities or localities. Recognising this shortcoming, this research defines competitiveness as the capability enabling a locality to have a continuous increase in productivity in the long run. Capability can be from a variety

of sources that according to Turok (2003) can strengthen or hinder performance of firms in a locality. These referred to the natural, physical, economic, human, social and institutional resources or assets of a locality. Competitive advantage refers to the ability of firms and localities to achieve and sustain their position in the competitive ladder. Also argued by Helmsing (1999), innovation has taken on a particular significance in sustaining competitiveness. He states that the capacity of a company to innovate depends not only on the company's internal mechanisms, but also on the structures and local conditions in which it operates. This he argues refers to structures that promote collaboration of companies and factors such as basic infrastructure and availability of critical institutions, including science and technology centers in a given locality. This draws on endogenous growth theory where growth is seen to occur from enhanced local productivity and innovation through investment in human capital and research in leading sectors of the economy (Turok, 2004). Moreover, endogenous development emphasizes cooperation; between and among firms, business associations, organized labor and government to develop specific skills and resources for enhancing local economy. In short, competitiveness is a combination of two elements firms and locality.

Based on the above, competitive advantage depends not only on physical externalities, but also on the learning capacity expressed by the locality. According to Helmsing (2001), learning at the regional level involves institutional and organizational processes. For example, there is a development trend which erodes the conventional institutional boundaries between businesses, government and higher education and research institutions. Multifaceted inter-organizational networks and hybrid organizations involving researchers and experts from science, governmental and business sectors are gaining currency. This is what Helmsing (2001) refers to as local regional innovation system (LRIS). He claims that such a system *“contributes to a greater systemic rationality at the level of the local regional economy, and is capable of generating substantial efficiencies in the enterprise support system, by reducing policy mismatches and by creating greater convergence in complementary investment and support programs”* (Helmsing, 2001 pp 302). Obviously this sets a new agenda

altogether for institutions particularly for government. Porter (1998) and Wollman (1998) in Feiock (1991) support this assertion, even though, some of the authors (Moriarty, 1980; Kieschnick, 1981; Wheat, 1986) in Feiock (1991) claim that state and local government' policies have less influence on firms' locations and investment decisions than economic variables such as available markets, characteristics of the labor force and other direct costs of production. Clearly what underpins the notion of competitive advantage at locality level is how the quality of the environment in which companies operate influences their competitiveness.

Looked at specifically, Porter developed a diamond-model that could be applied both in developed and in developing countries. Although the model was developed for competitive advantage at a national level, it was adapted for regional level. It tries to look at the immediate business environment that is surrounding and influencing the competition process. It proposes the four interrelated aspects illustrated in table 2 below, each of which represents a determinant of regional advantage:

TABLE 2: PORTER'S DIAMOND MODEL	
the context of firm strategy, structure and rivalry	A local context and rules that encourage investment and sustained upgrading(Intellectual property protection) Open and vigorous competition among locally based rivals
demand conditions	A core of sophisticated and demanding local customer(s) Local customer needs that anticipate those elsewhere Unusual local demand in specialized segments that can be served nationally and globally
factor conditions	Presence of high quality, specialized inputs available to firms (Human resources, Capital resources, Physical infrastructure, Administrative infrastructure, Information infrastructure, Scientific and technological, infrastructure, Natural resources)

TABLE 2: PORTER'S DIAMOND MODEL

availability of related and supporting industries	Access to capable, locally based suppliers and firms in related fields Presence of clusters instead of isolated industries
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In addition, chance and government are two surrounding factors, which unlike the core four determinants do not directly contribute to regional competitive advantage, but may improve or erode the potential for creating or exploiting competitive advantage. Chance refers to events that occur outside the influence or control of any sphere of government and firms. Examples include uncertainty in oil markets, acts of war, climatic conditions, major technological changes, acts of foreign governments.

Government has the a critical part to play in influencing advanced factor creation, in addition to more subtle influence on the other three determinants in the diamond. For example, government's intervention in relation to regional competitive advantages will be to create an environment that encourages desirable practices such as to attract skilled, creative and innovative people, to provide high quality cultural facilities and to encourage the development of social networks and institutional arrangements that share a common commitment to regional prosperity, are all key regional externalities or assets that benefit local companies. Van der Berg and Braun (1999) supports this view and state that in such environment the policies of local governments need to be, market oriented, able to react swift with an eye to spot threats, bearing in mind the city's strengths and weaknesses. In other words governments should act as a catalyst, helping companies to improve their position in striving to enhance competitiveness.

Porter's assertion on the supportive role of government is echoed by Helmsing (2001) and considers the "*capacity to convene*" as crucial role in improving competitive advantage of localities. Van der berg and Braun (1999) considers the capacity to organize as having to do with the ability to involve all relevant actors and, with their help, to generate new ideas and to develop and implement a policy designed to

respond to fundamental developments and create conditions for sustainable development. The research uses the term actors and stakeholders interchangeably. In this regard, it uses Honadle and Cooper's (1989 pp 1532) definition of a stakeholder; "*as an individual or a group which can have an impact, either positive or negative on a given situation*". On the whole, for learning to occur, there must be new types of dialogue, conversations between and among firms and government agencies, and institutions and local governments are best placed to facilitate that. It is within this context that on the LED policy front local governments are increasingly grappling with questions such as how best to create and encourage competitive advantage of their localities. Coming back to the diamond, the improvement or success of its factors is alleged to create external economies, such as agglomeration and localization benefits that further enhance the economic advantage of a locality.

Porter (1990) suggests the following four stages in the creation of competitive advantage.

- factor driven stage is based on basic factors of production (competitive advantage is determined by resources, such as low-cost labor and access to natural resources)
- investment driven stage refers to when investment raise factor productivity by introducing new technology (esp. Foreign Direct Investment)
- innovation driven stage relates to when local capacity has emerged to create new technologies and compete globally (competitive advantage lies in its ability to innovate and produce products and services at the frontier of global technology)
- wealth driven stage occurs when firms merely seek to preserve their advantage

While the above shows different competitive challenges at different stages, it is alleged that the transition through the different stages is not necessarily linear or gradual nor does it happen automatically. Equipped with this, an appropriate local operational environment, a local innovation environment can have a positive effect on companies' ability to innovate. It is in this context that on the LED policy front local

governments are increasingly grappling with questions such as how best to create, encourage and sustain competitive advantage of their local economies.

2.4 ANALYTICAL TOOL

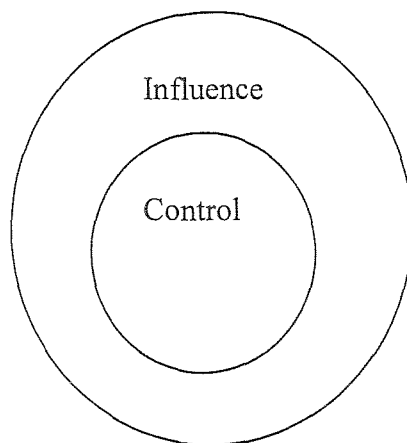
In order to find out whether Local Government is in a position to address the competitive challenges of their local economies in the Eastern Cape, the research employs the stakeholder analysis tool illustrated below by Honadle and Cooper. The tool was selected due to its usefulness regarding ways to bring various stakeholders into a programme process. As a starting point it recognizes that it is almost impossible for a single implementing agency to control the resources necessary to achieve LED. Indeed, initiatives addressing daunting competitive challenges such as roads, land, and skills development invariably need interorganisational cooperation.

LED by its nature typically requires orchestrated action by numerous organizations. This requires action not only from different spheres of government but invariably involves parastatals, NGOs, organized labour, organized business and other sector association. Over and above these, even agreeing on which sectors to focus on to promote LED can call for consensus seeking discussions with numerous organizations and social groups, such as the farmer's association, forestry association, banks, tertiary institutions, small, medium and micro enterprises, black business women's forum, village or ward committees and miscellaneous other entities. It is in this context that the stakeholder analysis tool is seen to be most useful in interpreting the data.

TABLE 3: STAKEHOLDER ANALYSIS							
Competitive challenge	List of DMs	DM	Econ . Affairs	Eskom.	DOR&W	Telkom	
Competitive challenge 1		X					
Competitive challenge 2		X			X	X	
Competitive challenge 3				X	X	X	

(Honadle and Cooper, 1989)

Appreciate



(Figure 2: Adapted from Honadle and Cooper's AIC framework, 1989)

Figure 2 above is adapted from Honadle and Cooper's AIC framework which referred to three realms which stakeholders can operate namely appreciate, influence and control. In this regard, where local governments are not one of the stakeholders listed, it is in a situation of appreciation. However, for the purposes of this research only two realms will be examined (influence and control) since appreciation is not applicable with respect to the nature of competitive challenges posed to local economies. The authors argue that where local governments are the only stakeholder addressing the competitive challenge, they are in a situation of control. In other words, it is within

their reach to solve the problem, thus it is their role and responsibility. Implicitly in this case, the research looks at what the various legislation says about each challenge with respect to which sphere of government is responsible for.

Further, where local governments are listed among several stakeholders for a given challenge, they are in a realm of influence. This implies that local governments can not address the competitive challenges alone, they need to mobilize others stakeholders. More specifically, the given challenges lie beyond local government's realm hence the need to motivate others. This is a difficult one for any other actor as the success is not within your reach but on how best you encourage and motivate other actors to work together in seeking to address the competitive challenge. It also raises new challenges for local government as in the past they were tasked with service delivery, now the shift is moving beyond that to creating a conducive environment which includes convening other stakeholders to cooperate. For instance, there are issues such as land which have a major impact on unlocking some competitive constraints. In this case local governments have little to do except to rely on the mercy of national department. In other words, the restriction of local governments' role in key economic activities of their economies implies that municipalities should gear themselves with respect to developing their capacity to convene. Theory in this by Helmsing (2001) and other authors such as van den Berg (1999) consider this not just a matter of local governments traditional planning processes but involves strategic networks among other actors (public and private) as a means of enhancing local economic development.

3. PRESENTATION OF THE EASTERN CAPE CASE

3.1 INTRODUCTION

The aim of this chapter is to provide an overview of the key economic sectors in the Eastern Cape with a view highlighting the possible focus of LED and set the constraints within which local government enabling policies will have to be developed. Numerous studies in this regard have been undertaken and this research will draw mainly on those studies, particularly around the Provincial Growth and Development Plan (PGDP).

3.2 KEY ECONOMIC SECTORS IN THE EASTERN CAPE

According to the ECSECC (2004) research, while the Eastern Cape has 15% of South Africa's population (44 million) in 2004 its economy has been valued at R75.7 billion and its contribution to the South African economy 7.9% in that year. The report claims that the provincial economy has been growing at an average of 2.4% per annum since 1995. Like the rest of the country, the economy of the Eastern Cape Province is characterized by extreme levels of uneven development. The formal Eastern Cape economy is strongly based on secondary and tertiary sectors (ECSECC: 2006). Within the secondary sector, automobile and related manufacturing is primarily responsible for GDP growth, while transport, communications and finance accounts for the highest levels of growth overall (PGDP: 2004). The tertiary sector, structured around government and community services sector is the largest contributor to the Eastern Cape economy, with education contributing 22% of GVA for 2002, public administration and defense activities, and health and social work contributing 11% each respectively.

On the whole, manufacturing, agriculture, government services and the financial services sector are the key dominating sectors in the Eastern Cape. In essence, the Province is over dependent on a few strong export oriented manufacturing sectors, particularly the automobile industry (PGDP, 2004). As mentioned in the background chapter, the Eastern Cape is one province that has shouldered the most severe

consequences of apartheid's system of racism and uneven development; hence it is characterized by extreme disparities in economic circumstances. This is reflected in the dual features of the Eastern Cape economy, floundering subsistence agricultural sector in the former homeland areas alongside a sophisticated manufacturing sector in the former CPA area. Port Elizabeth in the NMMM and East London in the Amathole DM, are the two major urban centers of the Province and this is due to the modern and competitive automotive industry and IDZs located in both areas. Moreover, the aforementioned economic challenges mirror the structural weaknesses and marked dependence of the Eastern Cape economy on the government and community services which do not provide any basis for sustained economic development.

3.3 LED POLICY CONTEXT

Recognizing the fact that the decentralization process in South Africa is still in its infancy, local government is faced with numerous challenges. Besides the RDP, one key response to these has been to enhance the powers of local government and specifically entrust them with a developmental mandate. The developmental local government thrust, as enshrined in the Constitution, calls for municipalities to address the social and economic development needs of their areas, through interventions such as LED (RSA, 2000). As such, LED is a newly evolving function of local government; research reveals that most municipalities are only now beginning to gear themselves up for implementation. Besides the Constitution, the White Paper also consolidates this view by stating that the new developmental local state must, in the pursuit of improving the quality of life of its citizens, work with them to find sustainable ways of meeting their social, economic and material needs (RSA, 1998). In this regard the White Paper views LED as one of the developmental outcomes of local government. Other important documents include the Refocusing Development on the Poor (RSA, 2002) document which recalls most prominently the developmental and pro-poor responsibilities that municipalities have in South Africa. Another intervention to note by the government is the Urban Renewal Strategy which focuses on aspects of urban regeneration and targeted support for township areas. Lastly, the 2005 Policy Guidelines for Implementing LED in South Africa is another

important piece which a focus on creating partnerships and building local competitive advantage among other things.

In order to support LED efforts throughout the country, DPLG, introduced a national LED Fund in 1999 and provided municipalities with funds focused mainly on poverty relief schemes. Notwithstanding the strides made by the fund, only a limited number of these interventions were recorded as sustainable. Given this, there exists a wide range of LED interventions in South Africa, starting from those which are viewed as pro-growth on the one hand to those which are pro-poor on the other. Scott and Pawson, (in Rogerson, 2002) distinguishes the two; the former, as representing the enablement of local economies to strategically position themselves to macro-economic reforms and emphasize among other things individual self-reliance, entrepreneurship, expansion of the market, competitiveness, reduction of unemployment and sustainable growth. The latter is characterized by a bottom-up approach geared to goals of achieving local self-reliance, empowerment, participation, local cooperation, and environmental sustainability. In South Africa, the challenge has always been how to dovetail the two taking into account the different contexts within which they are applied. As a result there are conflicting paradigms at national level regarding appropriate LED approaches, with the Department of Provincial and Local Government (DPLG) promoting pro-poor, community economic development and empowerment, and the Department of Trade and Industry (DTI) advocating economic growth-oriented enterprise development based on competitive advantage and production for export. As such, the outcomes of LED in South Africa and in the Eastern Cape in particular, have been mixed and municipalities have oscillated between pro-growth and pro-poor interventions. Responding to this challenge, the Eastern Cape Provincial Growth and Development Plan (PGDP) is one of the attempts to dovetail the two approaches in that its approach on LED emphasizes economic integration, competitiveness and sustainability. Formulated by the Provincial Government and its social partners (organized business, organized labor, NGO Coalition, tertiary institutions), the PGDP is a ten year plan (2004-2014) that is in line with the national policy framework for socio-economic planning at provincial level. The Plan provides strategic framework,

sectoral strategies and programmes including LED, aimed at a rapid improvement in the quality of life for the poorest people of the Province (ECSECC,2002).

While LED is being pursued by a broad range of actors at different levels (local, provincial, national and international) and within different sectors, the Provincial Department of Housing, Local Government and Traditional Affairs (DHLGTA) is formally currently responsible for its promotion in the province. An important role for the province in promoting LED is to coordinate the wide range of LED support services currently being provided by national and provincial government departments and by the private and NGO sectors. This ranges from marshalling municipal finances, infrastructure, capacity building and training to monitor and evaluate LED in the Province.

Since mid-2001, local governments have been required to produce Integrated Development Plans (IDPs). The IDP system is a process by which municipalities prepare 5-year strategic plans that are reviewed annually in consultation with communities and stakeholders. The idea is to promote integration by balancing social, economic and ecological pillars of sustainability without compromising the institutional capacity required in the implementation, and by coordinating efforts and resources across sectors and spheres of government. The IDPs are intended to be multi sectoral programmes including a broad range of development, ranging from hard services such as infrastructure, water, sanitation, electricity, housing and roads to soft such as land reform, poverty alleviation, human development and LED (RSA, 2001).

3.4 COMPETITIVE CHALLENGES IN THE EASTERN CAPE

3.4.1 Introduction

The purpose of this section is to outline the major competitive challenges faced by local economies and the role of local government in addressing the challenges. The information presented in this section is largely extracted from research on Competitive Advantages and Constraints in the Eastern Cape. As aforementioned, additional information was sourced from various research reports of the Eastern Cape Development Corporation (ECDC), ECSECC and other documents including IDPs of DMs and Metro.

3.4.2 Research Methodology

With respect to Competitive Challenges, the European Consultants Organization (ECO) undertaken a desktop research and ran four day workshops to collect data. The limitation of gathering information through a workshops process is that subject to the participants attended the workshop, an endless list of problems may arise rather than identifying systemic problems that impede competitiveness. All the same. ECO constructed a Competitive Index based on a series of indicators and indices. These are organized according to four elements namely: Infrastructure and Services; ‘Rules of the Game’ (the Institutional Environment); Economy; and Capacity. Each element explores crucial aspects of the economic development environment (for details see full report Annexure C).

Below is table 4 that identifies the kind of challenges preventing Eastern Cape economies from being competitive. The outcomes of the research are summarized in table 6. The common challenges are listed on the left and the stakeholders having the greatest role to play in addressing those are listed on the far right with DMs affected in the middle.

TABLE 4: COMPETITIVE CHALLENGES PER ECONOMIC ACTIVITY			
ECONOMIC ACTIVITY	SUBSECTOR	CHALLENGES	DMS AFFECTED
AGRICULTURE	Wool and mohair	<ul style="list-style-type: none"> • Roads • Availability of land for farming • Fencing • Limited extension of mohair production to black farmers • Disease and mortality rates • Shearing sheds • Poor quality wool • Lack of skills • Access to markets • Electricity and water • Lack of beneficiation 	Cacadu and NMMM and Alfred Nzo DM and Amathole DM, Chris Hani DM and OR Tambo DM
	Livestock	<ul style="list-style-type: none"> • Lack of local market for agriculture produce • Limited financial support and training for farmers particularly for emerging farmers • Access to land • Lack of adequate infrastructure for livestock rearing 	Alfred Nzo DM and Amathole DM, Cacadu DM, Chris Hani DM and OR Tambo DM

TABLE 4: COMPETITIVE CHALLENGES PER ECONOMIC ACTIVITY			
ECONOMIC ACTIVITY	SUBSECTOR	CHALLENGES	DMS AFFECTED
	Horticulture	<ul style="list-style-type: none"> • Under-utilized irrigation potential • Limited diversification of other crops (over-reliance on maize) • Lack of suitable roads • Insufficient land for people to farm because area is mountainous, and that land is held by commercial farmers who not willing to release the land • Poor growth of SMME due to limited finance and training support 	Alfred Nzo DM and Amathole DM, Chris Hani DM and OR Tambo DM
MANUFACTURING	Plastic	<ul style="list-style-type: none"> • Roads • Access to raw material • Distance to export markets • Inability to compete international • High price of raw material (including plastic moulding machinery) • Dependence on imported tools and moulds 	Amathole DM, NMMM
	Textile and clothing	<ul style="list-style-type: none"> • Limited labour market flexibility • High cost of labour • Shortage of skills in textile and clothing sector • Lack of innovation and new investment • Limited levels of finance and enterprise support • Distance to export markets • Access to raw materials 	NMMM, Amathole DM, OR Tambo DM

TABLE 4: COMPETITIVE CHALLENGES PER ECONOMIC ACTIVITY

ECONOMIC ACTIVITY	SUBSECTOR	CHALLENGES	DMS AFFECTED
	Leather	<ul style="list-style-type: none"> • Roads • Rail • Shortage of high quality domestic hides • Shortage of skills in the industry • Influx of cheap leather imports • Distance to export markets 	Amathole DM, Alfred Nzo, Ukhahlamba DM, Chris Hani, OR Tambo and NMMM
	Dairy	<ul style="list-style-type: none"> • Roads • Milk price fluctuation • Lack of management skills • Electricity • Cheap dairy products imported in South Africa 	Amathole DM, Chris HANI and NMMM
	Food processing	<ul style="list-style-type: none"> • Roads • Small size of local market • Shortage of raw materials • Insufficient research to identify new markets • High international quality standards 	Amathole DM, Alfred Nzo, Ukhahlamba DM, Chris Hani, OR Tambo and NMMM
	Timber processing	<ul style="list-style-type: none"> • Roads • Log supply • Land • High capital requirements of industry • Electricity • Furniture not up to international quality standard 	Amathole DM, Alfred Nzo, Ukhahlamba DM, Chris Hani, OR Tambo and NMMM
TOURISM		<ul style="list-style-type: none"> • Roads • Lack of a comprehensive public transport networks 	Cacadu DM, Alfred Nzo, OR Tambo DM, Amathole DM

TABLE 4: COMPETITIVE CHALLENGES PER ECONOMIC ACTIVITY			
ECONOMIC ACTIVITY	SUBSECTOR	CHALLENGES	DMS AFFECTED
		<ul style="list-style-type: none"> • Skills development • Volume growth • Seasonality • Information provision • Strategic planning • Branding 	

3.4.4 Summary of Key Challenges

TABLE 5: SUMMARY OF KEY CHALLENGES											
COMPETITIVE CHALLENGE	DISTRICT MUNICIPALITY/METRO	DM & METRO	DOR & T	DOL	SETAs	DEA ET	DAA	DALA	DTI	Parastatals	Ter. Inst.
Roads	Alfred Nzo DM, Amathole DM, Chris Hani DM, OR Tambo DM, Ukhahlamba DM	x	x								
Shortage of skills	Alfred Nzo DM, Amathole DM, Chris Hani DM, OR Tambo DM, Ukhahlamba DM			x	x	X			X		x
Low pace of land reform process	Alfred Nzo DM, Cacadu DM, Chris Hani DM, OR Tambo DM, Ukhahlamba DM	x					x				
Limited financial support and enterprise support	OR Tambo DM, Alfred Nzo DM, NMMM, Amathole DM and Ukhahlamba DM	x			x	X		x	X	x	
Lack of access to markets particularly the highly competitive international niche markets (wool & mohair, leather)	Amathole DM, Alfred Nzo, Ukhahlamba DM, Chris Hani, OR Tambo and NMMM					X			X	x	
Lack of market for agriculture produce and abattoirs	OR Tambo DM, Alfred Nzo DM, Amathole DM	x									

3.5 KEY RESEARCH FINDINGS

As noted above, the multitude of challenges facing the Eastern Cape economy are related, but not limited to infrastructure deficit. As such, roads have emerged as one of the single biggest competitive constraints for most economic activities in the Eastern Cape. In this regard, the Eastern Cape Competitive Advantage Analysis study (see Annexure 4 attached) reflects that the former homeland areas (albeit largely dependant on agriculture) namely Ukhahlamba (43, 55), O R Tambo (40, 57) and Alfred Nzo (35, 45) are the lowest in the competitive index while the Metro emerges as having the most competitive economy. The study attributed to inadequate basic location factors (infrastructure, services, and skills). Roads, shortage of skills, land, lack of market and finance and enterprise support are the key challenges that emanated from of the analysis above. Despite the fact that local governments all over the world and in South Africa in particular are urged to be developmental, only the inaccessibility to market for agricultural produce constraint fell within their realm. The call for developmental local government⁴ together entailed in a number of policy proposals such as the urban and rural development framework, the Policy Guidelines for Implementing LED in South Africa (2005) among others all steer towards a greater role and responsibility for local government.

Against this backdrop, the conclusions will deal with two subsections. The main findings from this analysis will be categorized in two realms in which local governments can address competitive challenges of their economies. These are referred to as Control and Influence.

⁴ White Paper on Local Government, (RSA, 1998)

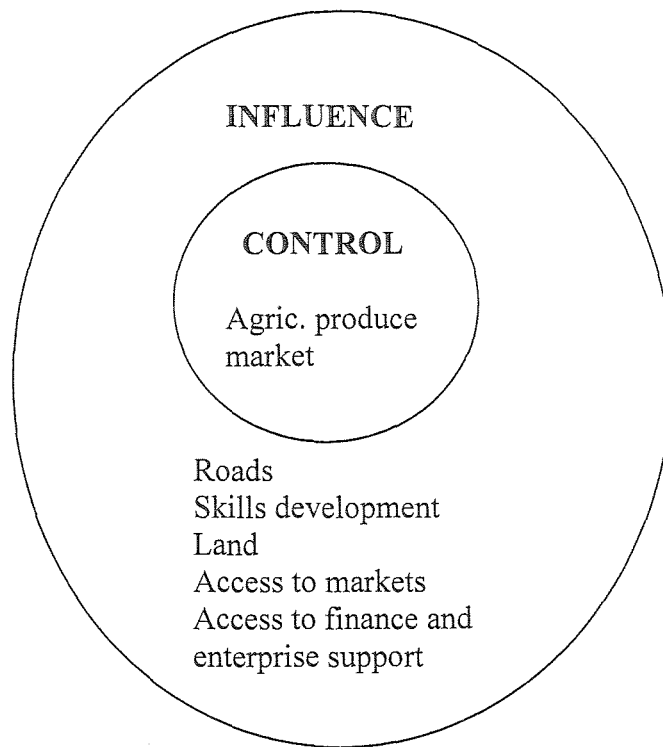


Figure 3: Adapted from Honadle and Cooper's *IC framework* (1989)

First, where DMs are the only stakeholders addressing a competitive challenge such as providing markets for agricultural produce, they are in a situation of control. In other words, it is the role and responsibility of municipality to ensure that there is a market for agricultural produce in their area. Second, where they are among several stakeholders as in the case of roads or shortage of skills, they are there in the realm of influence. This implies that DMs cannot address the competitive challenges alone, but they need to mobilize other relevant stakeholders to deal with the challenge.

3.5.1 CONTROL: Markets for Agricultural Produce

While it is clear that agriculture plays an important role in the Province (albeit constrained by lack of beneficiation of primary produce), the research findings reveal that few of the DMs operate markets and abattoirs. This presents a challenge to emerging farmers who do not have the scale or infrastructure to transport their goods to markets in the major urban centers. This begs a question of whether DMs have the

capacity to operate markets and abattoirs. Where it does not exist what can be done as this is the area where they will be held responsible for since it falls within their real.

3.5.2 INFLUENCE: Roads

As mentioned above, roads have emerged as one of the biggest competitive challenges. This is especially true of the all key drivers of economic development in the Province. Currently, there is still confusion relating to which sphere of government is responsible for which road; DMs and the Metro do have a responsibility to construct certain roads in their areas of jurisdiction. There is no doubt that infrastructure development around roads is an important prerequisite for unlocking much of the existing agriculture and tourism potential in the former homeland areas of the province. Besides DMs and the Metro, key stakeholders operating in the area of roads include the Provincial Department of Roads and Transport and the National Department of Public Works. Given that these are national and provincial government departments and public institutions, DMs are expected to perform their “coordinating function” as described by the Constitution.

3.5.3 INFLUENCE: Land Reform and Tenure

With respect to land, land reform and land tenure emerged as key constraints to competitiveness in the Province. This is particularly true for areas situated in the former homeland where communal tenure arrangements exist. While land in South Africa is a national government competence, it is receiving attention from some DMs. For instance, Amathole DM has lobbied the National Department of Land Affairs through its Land Reform and Settlement Plan. Other stakeholders include the Eastern Cape Land Claims Commission, Border Rural Committee.

3.5.4 INFLUENCE: Skills Shortage, Lack of Access to Markets and Lack of Access to Finance and Enterprise Support

Similarly, with other challenges in the area of skills development, access to markets and access to finance and enterprise support, the DMs will need to mobilize the

following stakeholders, Provincial Department of Economic Affairs, Tourism and Environmental Affairs (DEAET), National Department of Trade and Industry (DTI), Industrial Development Corporation (IDC), Eastern Cape Development Corporation (ECDC), Coega IDZ, East London IDZ, Research Institutions, relevant Sector Education and Training Authorities (SETAs) among others. However, research findings reveal that performance of DMs in this area is limited. In essence, the lack of government co-operation and stakeholder co-operation as constraints to development, were identified as an impediment to realizing LED. Added to that DMs are involved in turf battles because they undertake functions that are not their core functions or are functions that they shares with other spheres of government.

3.6 CONCLUSION

On the whole, the research findings suggest that the way towards competitiveness is through engaging with other spheres of government and other agencies in creating preconditions, ranging from roads to skills development and by creating local synergies among actors. In this regard, the importance of not just horizontal networking, but vertical networking as well. Helmsing (2001) supports this and sees it crucial in accessing other agencies at the same level. In this case, some of the municipalities share similar competitive challenges such as roads, skills development, and access to markets. This implies that creativity is important with respect to DMs with similar challenges come together and share resources or work on addressing these together.

Not surprisingly, roads emerged from this research emerges as the weakness in relation to other challenges in the entire Province. While the situation varies according to DMs, (albeit with the former homelands appear to be the most affected) huge amounts of funds are channeled through infrastructure initiatives such as Municipal Infrastructure Grants (MIG). However, due to a huge infrastructure backlog as a consequence of the South African apartheid legacy.

4. CRITICAL CAPABILITY CHALLENGES FACING MUNICIPALITIES

4.1 INTRODUCTION

The chapter will look at the extent to which municipalities in the Eastern Cape are able to deliver on LED. More specifically, the information presented will enable to an analysis of competitive challenges in relation to the role of local governments and other relevant stakeholders.

The information presented in this chapter is largely extracted from the Municipalities and LED in the Eastern Cape study produced in December 2005. Funded by the European Union, the report has been prepared by the Provincial LED Support Programme (now called Thina Sinako Programme) under the management of the Eastern Cape Socio-Economic Consultative Council (ECSECC).

4.2 RESEARCH METHODOLOGY

A questionnaire was developed, based on relevant LED related aspects of developmental local government. It made use of both primary and secondary sources of information and from those, key challenges for municipalities in LED were identified. All the seven DMs and the Metro were part of the sample drawn by the research team.

4.3 BACKGROUND TO THE STUDY

In order to determine how local governments function, the reports made use of The Palmer model of developmental local government⁵. The model is comprised of four drivers: development facilitation, governance and administration, regulation and service delivery. In this regard, the research findings are presented under these four headings;

⁵ Palmer Development Group, 2004

- **Development facilitation** refers to conditions that municipality creates to bolster growth and development. In the case of South Africa, this is strongly related to the concept of developmental local government, including aspects such as planning and economic development.
- **Governance and administration** relates the manner to which it interacts with their constituent sectors. (Co-ordination, capacity building, mobilization and participation, LED institutional arrangements, procurement, and administrative efficiency).
- **Regulation** refers to the controls a municipality places on the activities of its citizens and other actors to ensure that social, economic and environmental objectives are achieved. There seems to be contesting views about whether regulations prevents or facilitates business activity. The focus of regulation in this case is on those that are more related to business activity. These are divided in two areas: business regulation and environmental protection.
- **Service delivery** is considered as instrumental in creating the ‘public infrastructure skeleton’ to enable local business activity. It refers to issues such as strategic infrastructure, sites for business, core services, roads and transport, community services, LED infrastructure such as markets, abattoirs, market stalls and fire services.

4.4 KEY RESEARCH FINDINGS

The study reveals that, while LED seems to be well established in the Eastern Cape a wide range of key blockages are impeding its successful implementation at all levels. Based on the study findings, the following section will provide key Local Government capability challenges in the delivery of LED in the Province.

4.4.1 Development Facilitation

4.4.1.1 Planning

While IDPs, of which LED is a core component, allow for a comprehensive understanding of the local economy and allow relevant actors to devise a vision,

strategies to achieve the vision in an inclusive fashion, reveal the existence of ad hoc and fragmented LED interventions generated by most Eastern Cape municipalities. This is attributed to a number of issues including the fact that most IDPs produced by municipalities are weak with respect to the LED strategy revealing an inadequate economic analysis and also tend towards mainly stand alone, small scale poverty alleviation related projects. As such, the tendency is that municipalities select projects on expressed need rather than long term economic potential. As a result, in most instances LED is associated with poverty alleviation projects. It has also led to the increasing politicization of LED because in other instances small scale projects can be implemented easily in wards, through raising the profile of that particular area Councillor. The above suggests a need to ensure that IDPs developed are realistic and have credible LED strategies.

4.4.1.2 Economic development

Based on the fact that LED is a newly evolving function of local government, the majority of municipalities are still grappling with its development and implementation. As such, two of the Eastern Cape district municipalities have yet to develop their LED strategies. The success varies with Amathole DM and the Metro (albeit both are the major urban centers of the province) who have fairly sophisticated strategies in place, such as area targeting, area regeneration and development for one stop business advice centers (in Amathole LM referred to as BCM). In the majority of DMs issues of focus include support to agriculture, tourism, SMMEs, skills development and to a lesser extent finance. Except Cacadu DM (especially Makana municipality) which have a business support center, most local municipalities tend to focus more on community economic development projects. An issue that seems to cut across all district municipalities is the need for alignment. Because LED strategies are not exclusive local government competencies, municipalities implement projects with other government departments and parastatals. The area in what local government should involve itself in relation to other actors is still unclear. Finally, monitoring and evaluation is weak in most of the LED plans and

strategies and that makes it difficult to gauge to what extent the municipality has achieved its objectives.

4.4.1.3 Land and tenure reform

The research findings reveal that access to land is one of the key constraints to economic development in the Eastern Cape. This relates to former homeland areas due to the communal tenure arrangements they have. While land is a difficult area for local governments to engage in and resolve, given the fact that it is a national competence, the Amathole DM has made some progress by working with the National Department of Land Affairs in developing a Land Reform and Settlement Plan.

4.4.2 Governance and Administration

4.4.2.1 Integration and coordination

Municipalities are still grappling with establishment challenges because South African local government is still new. Notwithstanding that, municipalities are expected to perform a broad range of complex functions. Lack of integration and co-ordination is one of the key challenges facing almost all municipalities with regard to LED. District municipalities are responsible for co-coordinating various programmes undertaken within their jurisdiction area by national and provincial government and donors. Presently, coordination capacity is low and thus, a heavy administrative burden is placed on local municipalities who are already overstretched.

While the Intergovernmental Relations Act attempts to deal with the problems of inter-governmental co-ordination through the establishment of structures at both provincial and district levels, not all are functioning effectively. The signing of Memorandums of Understanding (MOUs) which clearly state the roles and responsibilities of different departments and institutions in the delivery of services, is seen as a step forward in addressing some of these challenges.

Finally, none of the district municipalities sampled used the same clusters as the province. Some (e.g. Amathole) are compatible, with some slight modifications and OR Tambo DM has plans along similar lines. While acknowledging that these are two independent spheres of government, integration, having similar or at least compatible clusters, would make integration much easier.

4.4.2.2 Mobilization and participation

District Municipalities in South Africa are required by the Municipal Structures Act to mobilize other actors in LED, particularly concerning IDPs and LED Strategies. In this regard, all districts had established LED Forums, although in at least two cases these had collapsed. Although the picture is different regarding performance, the problems highlighted relate to once structures are established, they are often too broad and therefore lack focus. Sectoral forums appear to be more common than general LED forums and this appear to be more useful due to their ability to be more focused. Added to that, municipalities are often faced with fragmented business communities which make facilitating participation very difficult. In many municipal areas the business community is organized along racial lines into two main groupings therefore making it difficult to deal with them in a structured way.

4.4.2.3 LED Institutional Arrangements

Across the Province, municipalities have therefore developed various institutional responses to take up the role. For instance, the NMMM has a LED staff compliment of 30 people, while Amathole and Cacadu have 10 and 2 respectively. Thus, capacity problems are a key challenge for most municipalities. This is attributed to the difficulty in attracting adequate skills, lack of clear job descriptions and limited training. Further, almost all the DMs in the Province had established LED Agencies except for Ukhahlamba and Chris Hani. Some of the challenges with respect to LED in municipalities include: lack of strategic location of LED (treating LED as a stand alone line department and not as a cross cutting issues); departmentalization of LED (LED seen as a sole responsibility of LED) and structure defining strategy (due to the availability of financial support provided by the Industrial Development Corporation,

some municipalities create LED departments and LED Agencies at both district and local municipal level.

4.4.2.4 Capacity issues

While there is a huge amount of funds channeled for municipal capacity building in the Province, this area has emerged as the single most important factor hindering LED. The following were cited as key capacity challenges:

- Lack of necessary qualifications (affecting the implementation and management of LED projects)
- Difficulty attracting required staff to remote municipalities (particularly in the more remote and rural municipalities)
- High turnover of staff:- (high mobility amongst LED professionals resulting in job hopping)
- Lack of clear job descriptions:- (in some instances LED officers/managers are project managers, others are mobilisers and facilitators and others are experts in certain economic areas)

These challenges still prevail despite various capacity building programmes, including Project Consolidate geared to address these broad capacity problems. Across the Province, the general response to capacity problems has been training. However, this is recorded as being of limited assistance to those attending. Moving forward, the research findings recommend that training on LED must focus on key functions such as co-ordination, facilitation, monitoring and regulation. Moreover training should strive to link with the learnerships developed by the Local Government Sector Education and Training Authority (LGSETA).

4.4.2.5 Performance Management

Although performance management systems (PMS) are being developed in all categories of municipalities, it is only in the more capacitated DMs and Metro that there are signs of the systems cascading to lower level staff members, and where the

overall performance of the institution as a whole is being monitored, including the performance of the LED function.

4.4.2.5 Financial Management

In general, many municipalities are characterized by a range of financial capacity constraints. The picture provided by the Auditor General reports over the past few years has not been good. In this regard, many municipalities highlighted shortages of funds. Most municipalities, particularly the less capacitated ones reported heavy reliance by municipalities on central government grants for their operations. This results in limited sources of revenue and an inability to devise strategies to address the situation. While municipalities need to pay attention to their financial management system (FMS), the Municipal Support Programme has made some progress in this regard.

4.4.2.6 Procurement

On the procurement front, all DMs have procurement policies in place and claim that they are supporting Previously Disadvantaged Individuals (PDIs) and Black Economic Empowerment (BEE). Most illustrated that they are in a process of updating their policies in line with the requirements of supply chain management as outlined in the Municipal Finance Management Act (MFMA). Another area of concern is the fact that SMMEs support by the municipalities is reported as limited. In this regard, Amathole DM is reported to have a sophisticated procurement system with specific targets set for BEE and local businesses. Progress about these targets is regularly reported to the Tender Committee. Chris Hani DM is planning to establish a Tender Advice Centre during the next financial year to support SMMEs.

4.4.3 Regulation

Regulation is recorded to be well developed in the urban areas of NMMM and Amathole DM (particularly BCM). Building regulations are undertaken in most municipalities as are control of food undertakings. Some of the key regulation constraints include the following:

4.4.3.1 Limited regulatory capacity

While the majority of municipalities are still at the policy or draft by-law phase of regulatory development, there are those that have no policies or by-laws at all. This makes enforcement of by-laws very limited, with the exception of NMMM and Amathole DM (BCM in particular). Lack of attention to institutional and financial implications of implementing policies and by-laws is seen as one of the reasons in this regard. As such businesses are said to be operating without the necessary licenses.

4.4.3.2 Punitive regulation

This refers to the problem of informal traders who are reported to be harassed by municipal officials with respect to where they can and cannot trade. This suggests a need for regulating street trading by creative responses to ensure that hawkers can access good areas to sell their goods, while at the same time not compromising other aspects of municipal functioning, and particularly the formal retail sector.

4.4.3.3 Outdated or non-existent zoning schemes

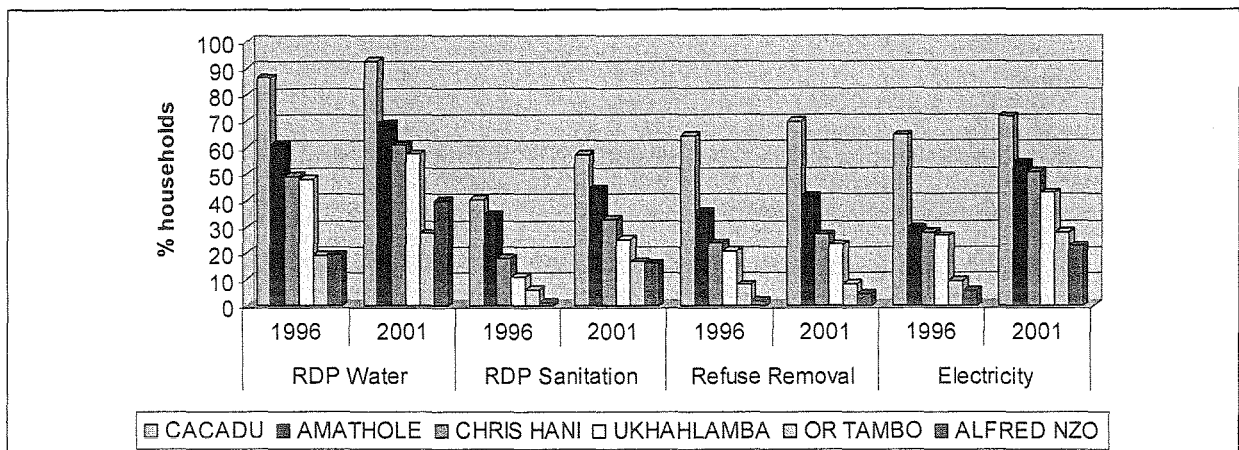
Amathole (BCM), Cacadu (Lukhanji and Makana) and NMMM (Port Elizabeth) are the only municipalities (albeit former CPA areas) reported to have zoning schemes, in others zoning schemes are either in draft form or non-existent. Consequently, speculation of land, environmental health related problems and competition between formal and informal businesses are recorded as areas of concern.

4.5.3.4 “Red tape”

One of the concerns highlighted by the business community was a lack of clarity on who in the municipality is responsible for what function. In general, this was not reported as a constraint by most stakeholders except by those in the NMMM. More specifically, the constraints ranged from heavy paperwork for small business to slow decision-making for rezoning applications.

4.4.4 Service Delivery

Access to services in the Province varies, with the municipalities in the former homeland areas having the greatest challenge. The limitation in this section is that the research made use of a Municipal Demarcation Board (MDB) assessment that only provided coverage information on some services whether or not the municipality was providing the function. Therefore it does not provide information on how well the services are being provided by municipalities. Across the board, there is a lack of clarity over powers and functions. In fact, municipalities suffer from confusion as to which powers and functions they should be implementing.



(Figure 4: Municipal Demarcation Board, 2005)

Figure 4 above illustrates that in the Province service coverage is highest in Cacadu and Amathole (albeit former CPA area) and limited in OR Tambo and Alfred Nzo areas (the former Transkei areas). However, improvements between 1996 and 2001 are mainly in the services of water and electricity, with a more modest improvement in sanitation and a very limited improvement in refuse removal.

Research findings reveal that with respect to water and sanitation, all district municipalities (excluding Cacadu) and local municipalities in Cacadu's area and Buffalo City have been assigned Water Services Authority status. Currently, local

municipalities are responsible for electricity provision and refuse removal is a shared function between district and local municipalities.

Inadequate service delivery was reported as the major challenge in the implementation of LED in the Province. The following are some of the key constraints related to service delivery;

- Service delivery backlogs
- Limited information on urban areas (Lack of information on services required for businesses)
- Poor condition of roads (In all municipalities and affects agriculture and tourism sectors)
- Ageing infrastructure (In all municipalities and causes service interruptions)
- Inadequate refuse removal (Deteriorating environmental health, unattractive business environment)
- Lack of markets and abattoirs (Limited market access for small scale farmers, money leakage)
- Lack of serviced land for industrial development (In the NMMM and this business opportunities are being missed)

4.5 CONCLUSION

This chapter has considered the capability of local governments in delivering LED in the Eastern Cape. It is clear that while municipalities are put under pressure to take on a much greater responsibility, that of moving beyond service delivery to creating a conducive environment for competitiveness of firms among other things, this takes place in varying degrees in the Eastern Cape. In this regard, the municipalities that fall in the former homelands, emerged as the most lagging behind with respect to all issues raised in this chapter, not surprisingly so given the history of apartheid segregation and uneven development in South Africa. More importantly the majority of municipalities are still struggling with establishment challenges due to a still very

young South African local government system. Another issue that seems to cut across all district municipalities is the fact that LED for all municipalities is a different field as it is a new experience for them. Besides capacity challenges, a key issue that emerged is confusion around roles and responsibilities, particularly regarding implementing or facilitating LED. Over and above the emergence of a new LED role emerges an important challenge that of strengthening local actors on the one hand while on the other being able to act swiftly and opportunistically still retain an awareness of any threats that may hinder competitiveness of their economies.

5. CONCLUSION AND RECOMMENDATIONS

In this paper, the competitive challenges that local government are faced with in their economies are outlined. Subsequently, the role of DMs in relation to the given challenges, was unpacked. Emerging from the findings is the fact that the majority of competitive challenges posed to localities are in the realm of influence of DMs. This is consistent with the theory, as Barca (2003) in Turok and Bailey (2004) states that some responsibilities for creation of externalities may fall outside the competency of local governments hence the need to mobilize support from other spheres of governments. In this regard, the paper draws the following conclusions. Firstly, given the fact that most of the competitive challenges aforementioned in the previous chapter are not in the realm of local government, the ability of DMs to undertake LED action is limited. Secondly, while local governments in South Africa are being given a prominent role in LED, the research findings reveal that in the Eastern Cape, the majority of DMs lack the capacity in this arena. This begs the question, what are they supposed to do in this situation? Clearly DMs cannot be held alone responsible for creating and exploiting the competitive advantage of their local economies. Radical support from other stakeholders is needed to address the aforementioned challenges. This suggests that the scope of action for DMs is limited. But this is not to say they can not make any difference.

Against this backdrop, their interventions lie in the realm of influence. In other words, the facilitation capability becomes critical. This is echoed by Helmsing who considers one of the key roles of local government in LED as convening other actors by local governments to make effective contribution in the local economy, (Helmsing, 2001). His take is that LED is not a local actors' business, decentralised sector and national agencies also have a role to play (Helmsing, 2001, 2003). Given the fact that this is a different role for local governments, a new set of challenges emerge, the key being the ability to convene other stakeholders to play implementation roles. However, much of the research undertaken in the Eastern Cape reveals that there is a tendency for local governments to sideline other actors, particularly business while lacking capacity to implement LED programs (Hindson and Vicente: 2005).

It is widely recognized that success in improving competitiveness depends on a close, cooperative relationship between different actors at local level in developing a strategic vision and an action plan for their area. As such with respect to the minimal requirements that municipalities should have, this capability needs to be developed within DMs to be able to do this as well as contractual and support roles for partnership arrangements. Added to that, given the limited financial and human capacity of many DMs, for weaker authorities, more government assistance is required if they are to address the competitive challenges of their localities. Through the Project Consolidate Programme, the South African government has progressed in this regard with respect to giving hands on support to troubled municipalities. However, to what extent has the initiative been effective is what remains to be seen.

With respect to stakeholders who are crucial in addressing the competitive challenges in the Eastern Cape, the analysis reveals that the Department of Economic Affairs Environment and Tourism and the Department of Trade and Industry (with stronger and big Xs) are key agencies that are important in creating and exploiting the competitive advantage of the Eastern Cape's local economies. Given the fact that key challenges are in their realm but not of the DMs, special types of relationships need to be forged or strengthened between these departments and the DMs. On the whole, local government's scope of action lies in ensuring convergence of interests around the competitive advantages of their localities; this could take place in the following terrains;

- Facilitating skills development and training particularly relating but not limited to design skills in textile and clothing, tooling skills in plastic industry. More importantly is the interaction between local governments, Sector Education and Training Authorities and tertiary institutions so that they are responsive to the needs of the area. Integrated Development Plans and LED Strategies should be a starting point for such engagements.
- Lobbying national (Department of Trade and Industry and Department of Public Enterprise) and provincial departments (Department of Economic Affairs Environment and Tourism) and other relevant agencies (Border

Technikon, Development Finance Institutions, Eastern Cape Development Corporation, private sector) to access finance and general enterprise support (marketing, product development etc). This is particularly a concern for emerging farmers and SMMEs in the manufacturing sub sectors in the Province. In line with this, the creation of enterprise associations/network (linking big and small scale) in troubled areas of the Province particularly Amathole DM where a number of SMMEs are located; and the rest of the province where finance and enterprise support seems inadequate should be facilitated. This is supported by Turok and Bailey (2004) as they see the idea of local business networks as vital for regional competitiveness since they promote cooperation, trust, and commitment. The benefit of these kinds of interactions will be the foundation for SMME cluster development in key sectors or spatial areas in the Eastern Cape. Cluster development is important for enterprises to learn⁶ from each other and from customers. This is consistent with theory of competitiveness which considers that key to competitiveness is learning, and local governments are best suited to facilitate it. In this context, over and above linking the Border Technikon to the enterprise network, Amathole DM should ensure that its programme on Small Business Development and Management talks to the challenges SMMEs face in various sectors.

- Lobby the national Department of Land Affairs, Eastern Cape Land Claims Commission and other NGOs to fast track the pace of the land reform process. Linked to that, DMs should engage the national department with respect to access to land as it has been noted as another challenge, particularly by both agriculture and manufacturing sectors of the Province.
- Provision of infrastructure, with specific reference to roads. DMs are responsible for the construction of certain roads, but must lobby the Department of Roads and Transport for others. Although very critical for agriculture and tourism, it was raised as an issue hindering competitiveness of all economic activities. This implies that DMs should ensure that it is

⁶ Acquire knowledge from each other

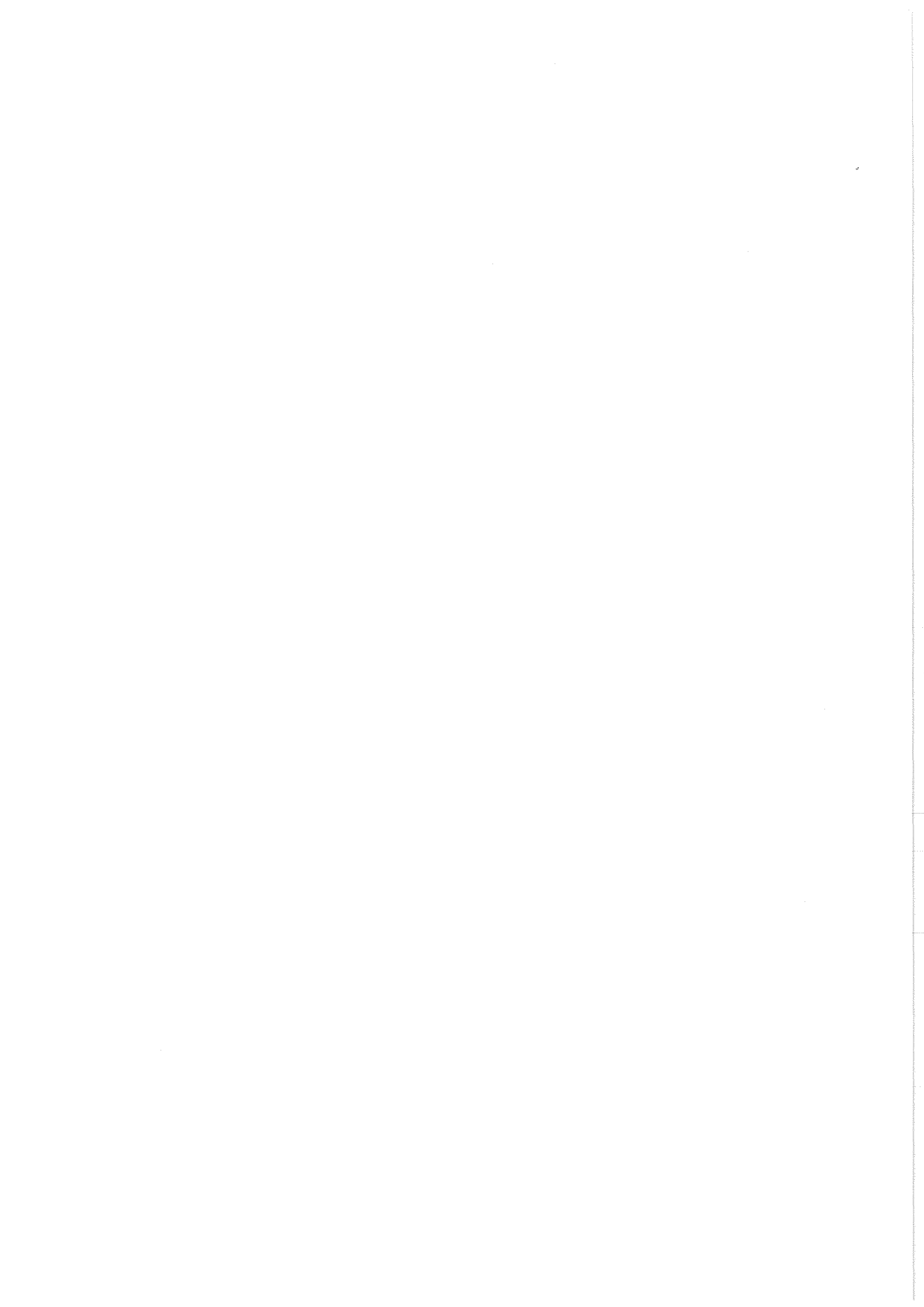
receiving the priority it deserves at all levels of government. For instance, although it is on the current plans of the provincial government already, at the Growth and Development Summit planning workshop by Amathole DM, the Kei road connecting East London and Umtata emerged as a matter of priority for access to markets, among other things. This implies that both DMs, Amathole and OR Tambo should put pressure on the provincial and national government to deliver on this initiative.

It goes without saying that competitiveness is not just a firm's business, but the environment within which business operates impacts on whether they flourish or not. In this regard, local governments in South Africa are faced with a huge challenge as they are required to provide this conducive environment for firms to operate. It is in this context that the research argues that given the current establishment challenges, and competitive constraints aforementioned, expecting that local governments will be able to create a favourable environment for LED, would be a recipe for disaster. On the whole, this research tried to show that without the intervention of other spheres of government, municipalities would be thrown onto themselves. Therefore national, provincial governments and other agencies should provide a helping hand, particularly in the former homeland areas of the Province. The research concludes that developing the capacity to convene of the different DMs and Metro would be a first step in the right direction. As such this should be given the priority it deserves with regards to the support of central government and other agencies.

5.1 POSSIBLE FURTHER RESEARCH

The research limited itself to the extent to which local governments can address the competitive challenges of their economies in the Eastern Cape Province. In this regard, it has said very little about other processes and initiatives currently taking place in the country and in the Province in particular. As such, a further important role of the DMs and Metro will be to ensure that their IDPs are aligned with the plans of other spheres of government. Although the outcome of Growth and Development Summits currently taking place is geared towards this, the fact that the three spheres of government still display anomalies with respect to different budget cycles and clusters not aligned, this seems overambitious. Key government activities need to be aligned including the National Spatial Development Perspective (NSDP), the

Provincial Growth and Development Plan (PGDP), the Regional Industrial Development Strategy (RIDS), Integrated Development Plans (IDPs) among others. Unfortunately it has been beyond the scope of this study to look at these in detail.



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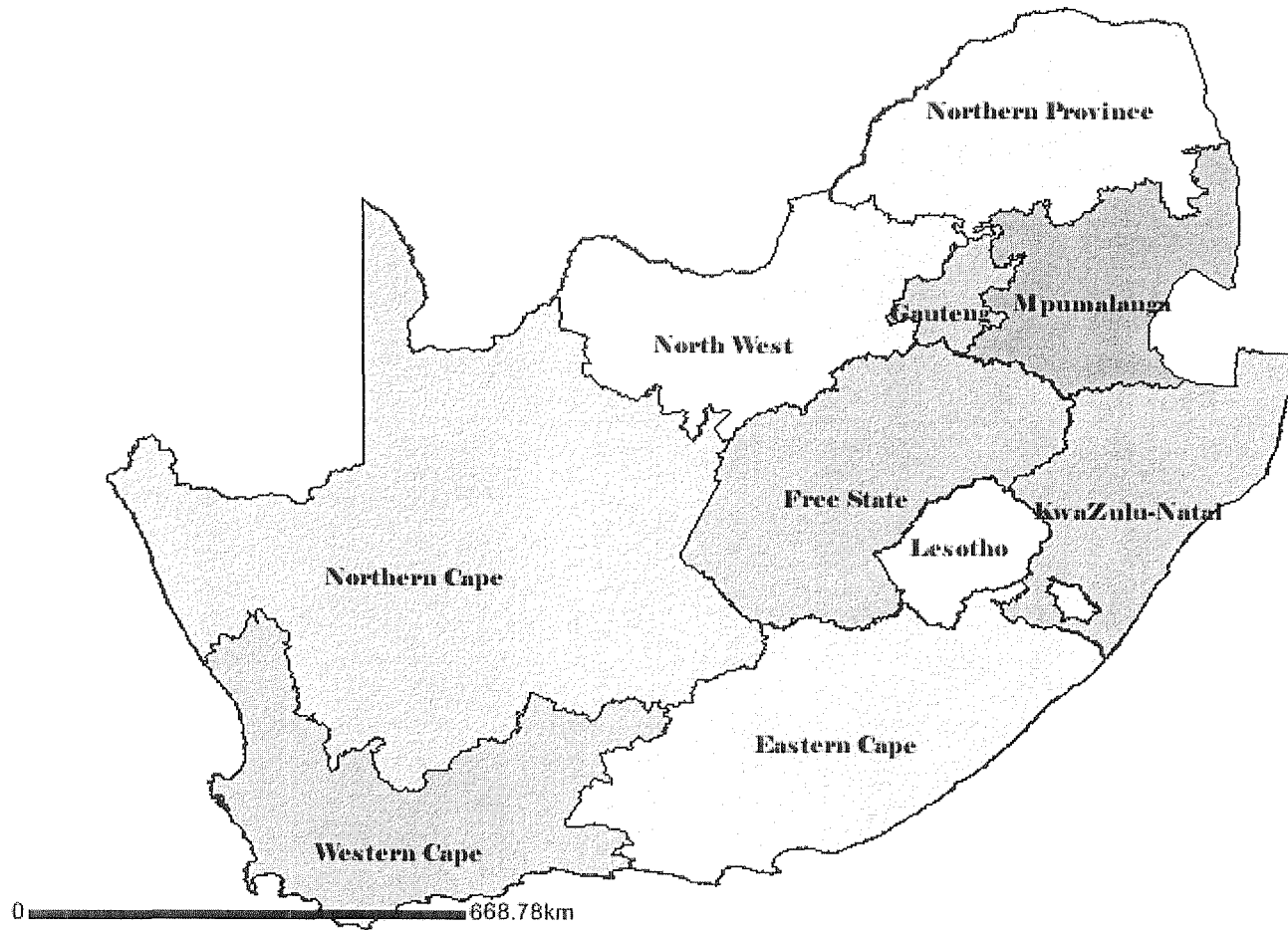
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ANNEXURE A: SOUTH AFRICA (Source: Municipal Demarcation Board)



ANNEXURE B:LIST OF TABLES AND FIGURES

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Eastern Cape

TYOLOGY OF MUNICIPALITIES THAT THE RESEARCH USED TO GAUGE CAPABILITY IN LED

Furthermore, the research drew a sample of municipalities for the collection of primary data through semi structured interview. This was done through using a typology of municipalities that is used by the Department of Provincial and Local Government (DPLG), the Department of Water Affairs and Forestry (DWAF) and National Treasury. This is presented in the table below.

Code	Typology	Institutional	Pop.	% urban formal	Economic Characteristics
A	Metro	Relatively large budgets and staff	> 1,000,000	>67%	Formal business sector well developed and enterprises have access to market supplied business services.
B1	Secondary City	Relatively large budgets and staff	200,000 to 1,000,000	>50%	Formal business sector well developed and enterprises have access to market supplied business services.
B2	LMs with large town as core (surrounding agricultural areas)	Reasonably adequate budgets and staff	50,000 to 200,000	>40%	Large towns with associated resources where LED activities are emerging into strategies and programmes to take advantage of economic potential. Areas with substantial numbers of SMMEs, considerable opportunity for market opportunities, but private sector business development services are not well developed.
B3	LMs with small towns (surrounding agricultural areas and villages)	Limited budgets and staff	<100,000	>20%	Small centres, which are impoverished in terms of resources and where LED activities are often most discernable at the level of the small project. Areas with few SMMEs and limited opportunities (scope for market opportunities is limited,

Code	Typology	Institutional	Pop.	% urban formal	Economic Characteristics
					dependence on public support is greater).
B4	Rural LMs (with mainly villages and subsistence agriculture)	Limited budgets and staff	>75,000	<20%	Small centres, which are impoverished in terms of resources and where LED activities are often most discernable at the level of the small project. Areas with few SMMEs and limited opportunities (scope for market opportunities is limited, dependence on public support is greater).
C1	DMs with largely urban areas	Reasonably adequate budgets and staff		>30%	
C2	DMs with largely rural areas	Limited budgets and staff		<30%	