



Input paper for the dplg Review of Local Government

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LOCAL ECONOMIC DEVELOPMENT

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1. Introduction and Scope

Local economic development in South Africa is not a new phenomenon with a range of evidence pointing to several incipient LED initiatives taking place in many cities and towns beginning during the 1930s. Nevertheless, in the apartheid era, local planning initiatives went into decline and became dwarfed by ‘top-down’ central government led initiatives of regional planning and industrial decentralization focussed upon the Bantustans. From the early 1990s there occurred a gradual re-emergence of LED initiatives in the country’s largest cities. Since the democratic transition, however, LED has been elevated from isolated local development intervention, mainly in cities, to an obligatory mandate for all local authorities in terms of the National Constitution.

Not surprisingly, therefore, over the past decade there has occurred a growing wave of LED initiatives being planned or implemented across the country and an accompanying swathe of new policy debates. Of particular significance is the fact that after nearly 10 years of LED being a requirement for local authorities, the DPLG finally released a statement of its understanding and goals for LED which provides local authorities with a definitive set of guidelines in their activities. The 2006 framework document offers a vision for promoting “robust and inclusive local economies, exploiting local opportunities, real potential and competitive advantages, addressing local needs and contributing to national development objectives” (DPLG 2006). Overall, the period 2005-2007 marks a watershed in the development of LED in South Africa because of the finalisation and release of a raft of national policy initiatives which include the 2005 Policy Guidelines, the 2006 National Framework Document and the 5 year Local Government Strategic Agenda and Implementation Plan appearing in 2006.

Beyond the activities of DPLG, the business of LED continues to be impacted also by a number of other significant policy developments, including the Accelerated and Shared Growth Initiative (2006), the National and Industrial Policy Framework (2007), the National Spatial Development Perspective (2006), the Integrated Small Enterprise Development Strategy (2006) and the Regional Industrial Development Strategy (2006). It is against this backdrop of a flurry of new policy documents and rising debates around the role of LED that the *aim* in this chapter is to critically review the context, existing practice and current directions of South African LED. In particular, the discussion considers LED within the emerging debates about the most appropriate spatial frameworks for planning economic opportunity, development and investment.

¹ Disclaimer: The views, opinions and interpretations which are presented in this paper are those of the author and do not necessarily reflect those of the DPLG or of any of its officials.

The scope of the chapter is defined by several themes which address Section 6.5 Questions on Development Planning as raised in the Policy Process on the System of Provincial and Local Government. The themes for this chapter are:

- The legislative and policy environment for LED;
- The evolution of LED across national, provincial and local tiers since 1995;
- The linkages of LED within wider spatial planning frameworks;
- Good practices for LED especially in terms of cluster development;
- Data issues and the identification of competitive advantage; and municipalities;
- The appropriate role of LED in the context of ‘the urban future’;
- Capacity challenges facing LED – generically and between different sized municipalities; and
- Key issues for policy discussion and possible research.

The material presented below represents ‘evidenced-based research’ and draws from the findings of recent academic work, critical analysis of policy documentation around spatial planning frameworks, internal DPLG material, and direct inputs provided by DPLG personnel.

2. The Legislative and Policy Environment

The legislative context for LED was anchored in 1996 with the requirement in the national constitution for local authorities to implement social and economic development and in the 1998 Local Government White Paper which introduced the notion of ‘developmental local government’. Subsequent legislation, such as the 2000 Local Government Municipal Systems Act, further defined the duties of municipalities while the requirement that all municipalities engage in integrated development planning - within which LED is a core component – ensured that LED was firmly positioned on the development agenda of local authorities. In many respects, these legislative developments occurred in a policy vacuum for whilst LED was mandated there was, at the time, no definitive policy documents on the topic and little guidance offered to local authorities as to how they might go about implementing LED. The outcome was that many municipalities remained deeply uncertain as to what LED meant, what they were supposed to do and how they were supposed to organise it.

The 2005 Policy Guidelines and 2006 National Policy Framework furnish a clear and sound basis for local authority activities surrounding LED. Four themes dominate the contemporary policy environment, namely good governance, promoting competitiveness, enterprise development, and the ‘second economy’. Good governance is regarded as the single most important element in attracting investment and jobs. Although the key to good governance is the IDP process and of the improved implementation of integrated development planning, a question mark must be placed on the extent to which municipalities understand this essential central relationship in LED.

The 52 municipal regions – the districts municipalities and metropolitan authorities – represent an important geopolitical platform for the activity of LED. Improving the competitiveness of these 52 municipal regions through providing an approach to developing local economies with the participation of all relevant stakeholders represents the second pillar of current DPLG policy. It must be recognised that there are different approaches towards improving local competitiveness. At one level, improved competitiveness can be an output of improved governance through local authorities simply ‘getting the basics right’ and of

undertaking their core business in an efficient and transparent manner. This element of enhancing competitiveness must be viewed as an activity that all local authorities must aspire to and can be nurtured through several support programmes offered by DPLG.

For many local authorities the enhancement of local competitiveness goes beyond ‘getting the basics right’ and can involve improving the ‘enabling environment’ for local investment, often in terms of amending municipal regulations or assisting with licensing or procurement. At the level of the more well-resourced metropolitan authorities, a suite of more nuanced approaches can be adopted to leverage competitiveness through, for example, sectoral targeting and support initiatives as well as improving the business environment for all investors. An important aspect of enhancing competitiveness for all localities is that of aligning the planning of infrastructure to support areas or sectors of recognised competitive advantage.

Overall, there exists a tension between the promotion of competitive advantage through supporting targeted sectors on the one hand and of creating an enabling environment for all businesses on the other hand. In many respects this tension exemplifies the existence of two different contemporary approaches towards the undertaking of LED. The first would be the approach which is currently favoured by DPLG of stimulating local economies by interaction with Provinces and Municipalities in order to create an enabled environment for all investors. The second represents a more interventionist approach towards LED activity, as exemplified by DTI activities which are geared to supporting priority economic sectors and of the development of local industrial policies. Although these approaches are complementary, the key policy issue is of defining the weight and balance of support to be allocated between the two approaches.

In terms of enterprise development, the core responsibility rests with the DTI initiatives and support offered through the national small business development programmes. The results of the first decade of support initiatives for enhanced enterprise development have been viewed, however, as mixed at best and disappointing by many observers. The model of government-led delivery of business development services (BDS) has been assessed as not reaching its targets in terms of numbers of beneficiaries, geographic spread, or types of beneficiaries. The spreading of a network of decentralized support through local business service centres, retail finance intermediaries and manufacturing advice centres provided the essential basis for enterprise support.

Several key lessons can be learned from the experience of the first decade of SMME support and should be embedded within the rollout of activities of the new SEDA. Among the most important lessons are the limitations of generic support interventions, the critical importance of having well-qualified staff for the provision of local business advice and information, and of the successes of sectorally-targeted and focussed interventions such as the manufacturing advice centres or TEP. Overall, LED activities surrounding enterprise development are taking place within a changing policy environment concerning SMME development including a retreat from exclusively government-led BDS support to greater involvement of the private sector in a ‘market development’ approach. The new focus on SMMEs involves a ‘facilitative’ approach, including improving the business environment through regulatory change to assist SMMEs and of monitoring the provision of BDS support through ‘third parties’, including NGOs, or the private sector including through direct provision and ‘embedded services’. Municipal policies that regulate utility charges, procurement, land-use in municipal areas, spatial zoning and environmental standards among others are increasingly

acknowledged as critical factors for LED in terms of their impacts on SMMEs, including informal enterprises.

Finally, the 'second economy' is another critical theme on the contemporary LED policy landscape. One of the most damning aspects of assessments on the first decade of national government support for SMMEs is that government neglected almost entirely the needs of informal enterprise and of micro-enterprises. The micro-enterprise sector is highlighted now as a special focus for national government support programmes under the revised 2006 Integrated Small Enterprise Development Strategy. Although much criticism can be directed at the concept of the 'second economy' as an all-encompassing notion that includes a number of different employment statuses, the concept has rejuvenated interest in what the state has done or can do for those working in the informal economy.

The debates about the second economy highlight the fact that the most critical support interventions made in support of the informal economy have been those made by *local* governments through for example, changing regulations, assistance to urban agriculture, or market development rather than through national government interventions. Although the DPLG's current advocacy of expanding local multipliers to assist the second economy is a logical policy foundation for going forward, a question mark must be placed upon the notion of expanding local multipliers through encouraging new shopping malls in localities where existing 'second economy' retail entrepreneurs (spazas) are inevitably displaced. Of critical importance is to leverage support for 'community empowerment' and to unleash local creativity and innovation. New windows of LED opportunity may be opening with emerging initiatives for locally-rooted financial institutions, such as village or co-operative banks. Overall, however, an effective LED policy for the second economy still remains undeveloped and unclear. Indeed, as noted in one report by the Presidency, the second economy continues to represent 'an out of the box challenge' for development planning as a whole.

3. Post- 1995 Evolution of LED Across National, Provincial and Local Tiers of Government

Since 1995 there has taken place a number of shifts in the unfolding nature of LED activities across different tiers of government. One overriding theme is of the progressive rise in importance of LED planning since the 1994 democratic transition with the promotion of LED initiatives a central facet of local policy and planning in both urban and rural areas. Nevertheless, a striking historical divide has been observed between the early LED activities which were undertaken by DPLG and DTI with the former concentrating on issues of poverty alleviation and the latter more strongly oriented towards the promotion of economic growth.

For some academic observers the initial focus upon issues of direct poverty alleviation and of conceptualizing LED as social policy has been viewed as "the predominant pattern in South Africa" and diverting attention away from business development. Other researchers, however, consider that the mainstream LED activities, occurring in cities, have dominated the landscape of LED. Several variants of 'place entrepreneurialism' are recognized with the most important interventions seeking to promote localities as competitive spaces for either production activities, consumption-related activities or information-processing/knowledge-based activities. In addition, cities have sought to address micro-economic constraints on local productive capacity as a vehicle for enhancing competitiveness and investment across all sectors of activity. The considerable variations in the local definition, directions and

understanding of what is LED reflects both the absence, until recently, of any national guidelines and the relatively short time during which many municipalities have been actively engaging in LED activities.

In several smaller localities the onset of a local economic crisis linked to mine closures or de-industrialization has been a compelling force for the growth of pro-active LED initiatives. Another factor that underpins the growing popularity of LED has been South Africa's re-integration into the global economy which forced many of the largest cities to engage in a serious soul-searching exercise about their role in a new political order whilst simultaneously facing up to complex and dynamic global forces. Finally, the rise of LED also draws strength from growing 'pressures from below' in terms of local authorities having to respond to increased demands from citizens for the creation of more jobs or livelihood opportunities.

It has been observed that whilst local government certainly has been an influential economic player in the past, only post-1995 have serious attempts been made to ensure that economic development is not merely the consequence of traditional local government functions (regulation, service provision, infrastructure maintenance and planning). Instead, LED has become a guiding rationale behind the myriad of existing, and a host of new responsibilities. This changed planning paradigm was readily grasped in cities but many other local governments, particularly in small towns and rural areas, struggled to assume the new developmental mandate.

A widely observed phenomenon is that LED is unevenly developed and operationalised across the country. In particular, major divides are observed in terms of policy development, institutionalization of LED and applied practice between the largest, most well-resourced and capacitated municipalities on the one hand and smaller urban centres on the other. Core applied constraints on the implementation capacity of smaller and less well resourced municipalities relate to issues of budgets, skills and staffing of LED units. It is conceded that the devolution of significant and real power to effect LED is impeded when local municipalities lack skills and adequate funds and other resources to run LED offices, pay for training or to finance projects.

Several shifts are evident across the first decade of applied interventions and planning for LED. In many respects these shifts that have been observed are a mirror of 'learning by doing' and in some cases 'learning from mistakes'. First, there is a marked trend away from the traditional 'smokestack' approach of viewing LED as an activity geared to simply attracting investment from outside. Although the promotion and attraction of external investment can be a component of LED strategies, there has been a shift towards LED approaches in which emphasis is placed upon 'building the economy from within'.

Second, a welcome change in the national direction of LED planning has been from a 'project-based' approach to the adoption of more coherent, comprehensive, integrated planning approaches. Although this shift has occurred at the highest levels of planning for LED across the country, there remain many municipalities where this shift from a project-based approach still has not occurred and where LED continues to be marginal to the basic service delivery mandate of local governments. Illustratively, the DLPG assessment of LED in Gert Sibande municipality highlighted that the focus remained on "micro-projects" with little impact upon the district economy (DLPG 2005 Gert Sibande Profile). The new approach essentially shifts attention away from the piecemeal way that LED was previously undertaken towards a fresh more integrated approach, "which looks at LED as a broad based output of

local government administration and which is harmonized but firmly rooted in the district's comparative advantage" (DPLG 2006 Gert Sibande Profile).

Third, the multiple definitions and lack of understanding of LED is being addressed and replaced by DPLG's drive for a more coherent shared vision and understanding of LED contributing towards the objectives of accelerated and shared growth. One outcome of this convergence has been that many municipalities are now seeking to address the so far limited involvement of the private sector in LED and to forge partnerships with the private sector.

Four, the past few years have seen a greater emphasis upon the strategic national coordination of LED as part of long-term economic development and linked also to wider development planning, including ASGISA. Nevertheless, of concern is that LED is still not well embedded in municipal practice in many localities and as noted in one recent study "it is still early days for many municipalities, whose policy is still being developed and concrete results appear to be limited". Five, there is now a high level recognition that a 'one size fits all' approach is not appropriate for LED. Instead, more sophisticated and nuanced planning is required and must be based upon local knowledge and 'self-discovery processes' in order to address the differentiated LED issues that are posed variously in areas of high economic potential, declining localities, small towns or former Bantustan areas.

Overall, since 1995 it must be concluded that LED has made some progress across national and local spheres of government. National government has set in place a framework for unlocking the potential of local economies, albeit there remain differences in the emphasis of the LED approaches of DTI and DPLG. On the ground the results of LED remain mixed with the lack of appropriate monitoring mechanisms for evaluating LED highlighted as a recent cause for national concern. A salient issue that has so far been little examined is of the role of provincial governments as agents in LED.

4. The Linkage of LED to Wider Spatial Planning Frameworks

An important theme for LED stakeholders is the relationship or linkages of LED within wider spatial planning frameworks that have emerged and strengthened in significance over the past few years. Of particular importance are the issues of alignment and of 'harmonization' of LED processes with other government planning processes, which are taking place at higher scales such as the province and nation. In terms of alignment, it has been made clear that the "Provincial Growth and Development Strategies (PGDSs) and District and Metropolitan IDPs have been identified as the most strategic instruments to achieve greater alignment and harmonisation with the NSDP" (The Presidency, 2004: 17).

The issue of alignment and harmonization is strongly articulated in the rationale of the NSDP as well as in RIDS planning. In a report produced by the Presidency in 2004 it was recorded that "none of the provinces has put in place fully-fledged processes of reaching agreement on provincial-wide potential and need according to NSDP principles" (The Presidency, 2004: 21). Furthermore, it was observed that municipalities "did not consider" PGDS when preparing their IDPs. Analysis of the DPLG LED Profiles also highlights the importance of greater alignment of LED processes and planning with that of provincial and national level planning. Several individual LED strategies are criticised severely by DPLG for failing to align themselves to these wider planning processes and in particular to the NSDP. Indeed, the 2006 IDP engagement process criticised Johannesburg and other metros for the lack of linkage between local economic growth strategies and national strategies. It was observed

that “The terms ASGISA, PGDS and so on were cited in documents, but their principles not well integrated into the planning process” (DPLG 2007 Johannesburg Profile).

The 2006 NSDP, the findings of which were released by the Presidency in June 2007, constitutes a foundation document for spatial planning. The NSDP represents South Africa’s first set of national spatial guidelines and specifically is to provide (1) a shared understanding of the national space economy; (2) a principle-based approach to coordinate and guide policy implementation across government; and (3) an interpretation of the spatial realities and the implications for government intervention. Overall, the NSDP describes the “spatial development vision of government and the normative principles that underpin this vision” and is a key document to inform the respective development plans of provincial and local government, namely IDP and PGDS. The 2006 NSDP therefore must be considered also as an overarching framework for LED planning, more especially in terms of its advocacy of a methodology for “a coherent understanding of spatial realities” (The Presidency, 2007). Indeed, the NSDP states: “The principles and methodology of the NSDP should inform the development plans, policies and programmes of all spheres and agencies of government as a matter of policy” (NSDP 2006: 90).

The NSDP consists of a “spatial narrative”, a strategic response and a set of (mostly incomprehensible) GIS maps, many of which relate to regions of development potential. In terms of planning principles, the NSDP is focussed on achieving ‘people-equity’ rather than spatial equity. Importantly, it argues that government spending on fixed investment should be concentrated on identified areas/localities of economic growth and/or potential. By contrast, in localities with low economic potential, Government should focus on the provision of essential services, concentrating on human capital development, poverty relief programmes and reducing migration costs by providing information to enable out-migration to regions of higher economic potential.

As the overarching framework for spatial development planning, a close scrutiny of the NSDP is now warranted. The designation of areas of high potential and of low potential in NSDP is vitally significant for the spatial allocation of infrastructure spending, an essential dimension for LED. It is thus critical that the quality of economic data and analysis used in defining such areas of high potential and low potential be of the highest order. The impact of designating an area or region as of ‘low economic potential’ needs to be considered for it imposes a special responsibility upon the IDP/LED processes in areas designated as of ‘low potential’. As has been correctly observed in the Free State (2006: 114) PGDS, “the stark spatial hierarchy proposed by the NSDP can only be mitigated by initiatives from below to identify local economic advantages”. It is argued that: “The onus is on local residents (by implication, municipalities) to argue their case for government expenditure to be allocated to their areas. Municipal IDPs will therefore be more important than ever“. In particular, the NSDP raises the importance of sound IDP processes and LED strategies in those parts of the country classed as ‘low economic potential’, which includes much of small town South Africa, rural areas and former Bantustans. Many of the local authorities in these areas may wish to challenge their status of ‘low economic potential’.

As one of the central foundations for harmonisation of LED strategies, at the very least, the findings of the NSDP must be subjected to wide debate as certain questions can be raised as to the validity and reliability of the GVA data that is used. Moreover, the six categories of development potential in NSDP are not particularly helpful for lower level economic planning and perhaps should be re-considered. It is observed that in certain PGDS and DM

LED strategies the six categories of development potential are sometimes mentioned but do not become subsequent focus of analysis. Instead, use is made of more conventional – and more appropriate – sectoral categories for economic analysis

Finally, the debates surrounding the NSDP throw into sharp focus the broader question of the most appropriate spatial scale for pursuing development planning. An alternative perspective to the NSDP is offered by the RIDS which is another important policy document that should be open to further scrutiny. The RIDS states that it provides a policy framework for “localised economic activity initiated by a local community, local authority, external agency or non-governmental organisation in a rural or urban area” (DTI, 2006: 71). Of greatest importance in terms of ongoing debates around ‘harmonisation’ and spatial planning is that RIDS suggests the validity of defining regions for development planning which are based upon *clusters* of sectoral activities rather than upon spatial units such as municipal areas. Overall, questions of harmonisation and alignment in spatial frameworks must open up wider national debates around the NSDP and of RIDS which potentially have significant implications for LED planning.

5. Good Practice for LED

For the past decade, many academic observers have been highly critical of the limited outputs or successes which have been associated with LED policy. Undoubtedly, one explanatory factor in the limited number of ‘success-stories’ is the near complete absence of any monitoring and evaluation programmes to benchmark and gauge the performance of LED interventions.

In the view of many writers, the absence of clear ‘success stories’ is a reflection also of national government’s failure to introduce clear guidelines for municipalities as to what LED meant and how it was to be undertaken. The launch in 1999 of the LED Fund, which was based on directing support to municipal projects designed to address poverty issues, created in the minds of many local officials, the notion that LED was only about poverty relief and of community-based projects. The proven unsustainability of many of the supported projects and the subsequent abandonment of the LED Fund damaged perceptions of LED and of what it could achieve.

A key theme from academic research on LED has been that whilst there are isolated examples of successful LED in small towns/rural areas, the best illustrations of success are generally to be found in cities, particularly concerning interventions for supporting SMME development, including of improving the business environment for the informal economy. Although it is argued that the shortage of LED ‘success stories’ is a result of poor implementation and lack of funding support, it is important to acknowledge that there are a number of important good examples of successful LED, particularly in terms of clusters and support interventions for cluster development.

The promotion of joint action, learning networks, and upgrading has been shown to be central to achieving ‘collective efficiency’ and the enhanced competitiveness of clusters. The recorded experience of a number of clusters, most importantly of learning and cluster cooperation networks, such as the Kwa-Zulu Natal, Eastern Cape and Gauteng Auto Benchmarking Clubs, show the positive advantages of firms cooperating horizontally to learn and upgrade their process manufacturing activities. The Durban Automotive Cluster represents a solid example of encouraging horizontal and vertical cooperation across the

value chain. Importantly for LED debates, it was funding from the Durban metropolitan government which emerged as the primary source for cluster upgrading. Overall, the DAC is a model of a business driven process for upgrading in which government support has been a critical element. It is also a model which is potentially replicable in other contexts. At a more localised scale the inter-firm cooperation encouraged by local government support interventions in the Johannesburg fashion district represents another illustration of successful cluster intervention and support.

Although the DPLG has not made any statements or taken a position on clusters, the notion of promoting 'active clustering' is now being championed by DTI through the RIDS initiative. It is argued that what differentiates a cluster from firms in a common geographical location is joint and purposive action. Moreover, firms within an 'active cluster' purposively work together to upgrade and develop their capabilities. The relationship between individuals, firms and institutions (government included) that emerges due to the purposive collaborative action, matters and this purposive action can be fostered to induce or enhance industrial upgrading. Overall, the DTI asserts this "joint and purposive action is tied to two broad areas: firstly relates to economies of scale benefits that are not achievable alone and secondly it is tied to knowledge enhancement through the ongoing exchange of private and public sector expertise" (DTI, 2006). Of critical importance is the role of sub-national governments in energising 'passive clusters' and in supporting the upgrading of clusters, creating an enabling environment for firms to upgrade systemic competitiveness" on a long-term basis, thus spreading the 'good practice' of clusters in industrial upgrading.

The emphasis upon clusters engages directly for the first time with the significance of *localised processes* and networks in clusters for local and regional economic development. As stated in the draft RIDS document "the pivotal role of government resides at the provincial and/or local level" (DTI, 2006: 64). Accordingly, it is stressed rightly that the DTI "intends to clearly articulate the Regional Industrial Development Strategy to all provincial, major metropolitan and local governments and provincial and local governments will be encouraged to foster the development of clusters within their jurisdictions" (DTI, 2006: 3).

The notion of clusters and LED support for clusters need not be confined, however, only to manufacturing activities but can be applied more widely to support other sectors. In tourism, for example, the planning of routes is a direct parallel of cluster cooperation and involves developing cooperative planning arrangements and relationships between different localities in order for them to collectively compete as tourism spaces. Tourism clusters as routes can operate at a number of geographical scales. Nonetheless, route development can be of special importance outside of the metropolitan areas and can furnish opportunities for LED in small towns and rural areas. The competitive clustering of activities and attractions in less developed areas, stimulating cooperation and partnerships between communities in local and neighbouring regions with the objective of stimulating tourism-led LED is best exemplified by the operations of the Midlands Meander in KwaZulu-Natal. Spatial networks here are constituted by 'packaging' rural tourism products into inclusive and coherent routes through the use of themes and stories which help to move the tourist around geographically dispersed attractions. Beyond tourism, the opportunities for using the principles of cluster development potentially can be applied to activities such as arts and crafts and 'creative industries' as a whole. In taking forward the importance of clusters for LED there is an urgent need for DPLG to formulate a position on 'cluster development' and to both engage with DTI and coordinate activities around clusters.

6. Data Issues and The Identification of Competitive Advantage

The identification of the comparative and competitive advantage of localities can be a starting point for cluster initiatives as well as for investment promotion initiatives. It is significant that the identification of local and regional competitive advantage is a strong theme that is highlighted by the NSDP as well as the RIDS policy documentation. In addition, the DPLG's own LED internal profiles of localities further reinforce the identification of competitive advantage as critical for formulating LED strategies as well as the promotion of investment. Overall, the importance of undertaking economic research to identify competitive advantage is a strong theme which runs across DPLG LED profiles for 2005-07 with many DMs criticised for failing to recognise or capitalise on their competitive advantage. In other parts of the country, such as Gauteng, the IDP engagement process highlighted that many municipalities in the province do not engage "in substantive analysis of economic trends within their area of focus" (DPLG 2007 Johannesburg Profile).

The identification of comparative and competitive advantage underscores the importance of developing a better understanding of the changing dynamics of local economies. Better local understanding in turn demands the collection of good economic data to enhance LED planning. Typically, in one DPLG internal profile it was observed: "The first and primary economic challenge confronting Thabo Mofutsanyana is a better understanding of the District economy and to ensure that it is represented in its draft LED" (DPLG Profile for Thabo Mofutsanyana). The key issues for defining comparative advantage are therefore those of the collection of reliable economic data to track local economic trends and of responsibility for defining competitive advantage.

A number of different positions have been offered on the question of the level of responsibility for defining local or regional competitive advantage. In the NSDP it is stressed that metropolitan and district municipalities must "seek out new areas of comparative advantage, and identify and develop clusters of specialisation in collaboration with especially the provincial and national departments of trade and industry, labour and economic affairs. Whereas the current focus on clusters essentially lies with the national DTI, Treasury and Stats SA, international literature suggests that it is most successful when it has a significant local input and drive. It is in the intricate local networks, which often only the local people are aware of, that the prospect of establishing local and regional clusters lies" (NSDP 2006: 90). The involvement and responsibility of the DTI is highlighted in RIDS which states that "the dti's LED strategy will be to assess a community's comparative advantage and identify specifically what local stakeholders can and need to do" (DTI RIDS 2006: 71).

In DPLG profiles, responsibility for defining competitive advantage in the well-resourced metropolitan areas is placed firmly upon these authorities. For example, the Johannesburg profile offers the critical comment that: "A city with the resources and aspirations of Johannesburg should be able to produce time series data on its leading economic sectors, and base planning decisions on them" (DPLG 2007 Johannesburg Profile). For less well-resourced DMs and LMs, considerable support has been made available to identifying economic opportunities and local competitive advantage through the recently released (October 2007) findings from the Nodal Economic Profiling Project which is centred on the poverty nodes. The outputs of the DPLG's *Programme of Action for Building Productive and Sustainable Nodal Economies* include the delivery of 21 Nodal Economic profiles, which are intended to raise the importance of productive and sustainable nodal economies. Broadly speaking, it is evident that a collective responsibility exists across many levels of government

(especially of Stats SA) for the gathering of data that can be used for monitoring local economies and defining competitive advantage.

It can be argued that the most critical issue for defining competitive advantage is not which level or department of government carries that particular responsibility but instead of the availability of good data for understanding local economies and for LED planning. In this regard, severe question marks must be raised as to the reliability and quality of existing official data for undertaking local economic planning. The quality and reliability of local level data to identify local/regional comparative can be illustrated by interrogating the spatial data used in the NSDP. The NSDP analysis is exclusively based upon gross value-added data. But, as noted in one 2006 DPLG Profile: “Data presented in such a way may indicate increased *economic* growth but may say little about *employment* growth which is central to Government’s long-term socio-economic objectives” (DPLG 2006 Xhariep Profile). The exclusive use of gross value-added data is an indicator of the almost complete absence of reliable spatial data on employment which can be disaggregated on a sectoral level.

In many sectors, such as manufacturing, it can be argued that the quality of available spatial data has declined since 1994 as certain formerly regular data series, such as the manufacturing census, are no longer undertaken. Equally, for important priority sectors such as tourism, creative industries, craft or biofuels, there is almost no official data on a spatially disaggregated basis which might inform the identification of competitive advantage and enhance LED planning. The case of tourism highlights starkly a credibility gap with the data used in the NSDP. According to the NSDP analysis, Johannesburg’s tourism GVA is seemingly equivalent to the combined tourism GVA of Cape Town, Durban and Port Elizabeth, a finding which even non-tourism specialists might consider of questionable validity! Looking forward, it is evident that there are major deficiencies that must be addressed in the existing spatial data sets to inform and improve local level planning. Enhancing the range and quality of data for local level planning is thus a major challenge that faces LED stakeholders.

7. The Appropriate Role of LED in the Context of ‘The Urban Future’

One of the most striking findings of the 2006 NSDP was to confirm the remarkable extent of the polarization of the national space economy. The NSDP discloses very clearly that the highest levels of GVA are highly concentrated in geographical clusters, and more especially polarized around the country’s major urban centres. The NSDP 2006 demonstrates that national “government’s policy objectives of accelerating growth and addressing poverty operate in the same space”. In turn this finding leads to the conclusion that “the focus on people and on localities with demonstrated economic potential addresses the majority of the population” (NSDP, 2006: 89).

With the accompanying trend also recorded for accelerated levels of urbanization, it is clear that the operations of LED in the country’s major cities and secondary centres increasingly will determine the essential success or failure of national initiatives for LED as a whole. Indeed, the NSDP endorses several recent statements made by the President’s Coordinating Council and the Harmonization and Alignment Proposals that there is a central role to be played in future for metropolitan councils in achieving the goals of coordinated government action (NSDP, 2006: 89).

In enhancing the role of LED in the cities, key issues for the LED agenda will be those of good governance, identifying and enhancing competitiveness, identifying and addressing micro-level constraints on investment, and improving the business climate for all kinds of enterprises (including SMMEs and second economy). The DTI's 2006 NIPF rightly adds the critical importance of support to cities in order to undertake the further enhancement of industrial policy work at sub-national level. Issues of critical significance are those of the appropriate identification and energising/upgrading of clusters and the promotion of manufacturing excellence. The NIPF offers a valuable set of proposals which can strength future LED activities in the major cities, not least the suggestion of a need to incorporate relevant metros and local authorities as sub-national stakeholders in 'self-discovery' processes particularly at sectoral level (NIPF 2006: 29).

It is evident that there is major burden of responsibility for the development and implementation of innovative and creative LED in major cities for achieving in future the goals of harmonization and alignment as set forth in the NSDP. One potentially promising initiative that will require close monitoring is that of Global City Region, an initiative that potentially will impact across Gauteng, the heart of the national space economy and core regional driver for achieving accelerated growth. In assessing the unfolding development of the Global City Region concept, however, it is necessary to balance contributions towards economic growth and also to scrutinise its contribution for shared growth.

As noted above, the NSDP identifies the cities as critical focal points for addressing the national poverty challenge. The enormous extent of this challenge is disclosed by the set of nodal economic profiles which have just been released as outputs of the DPLG Programme of Action for Building Productive and Sustainable Nodal Economies. The underdevelopment and severe impoverishment of nearly 10 million people living in the rural and urban 'poverty nodes' is now well-documented. The nodal economic profiles of localities such as Alexandra, Motherwell, Khayelitsha or Mitchell's Plain point to the imperative for urgent action to be taken in order to address infrastructural and service deficiencies as well as for economic development. It must be evident that the responsibility for dealing with the enormity of these problems cannot be carried by the metropolitan authorities for the urban nodes or the DM for the rural nodes. Although there can be local level contributions made through coordinated LED initiatives, it remains that the overwhelming poverty problems of the nodes requires a coordinated response from higher levels of government and to be addressed by all line departments. One possible way forward is for the LED activity in poverty nodes to be specifically integrated within provincial planning across the country.

Finally, in terms of 'the urban future', it is important to avoid a 'large city' policy bias and instead to retain a focus on the potential significance also of LED taking place in small towns and former Homeland areas. The NSDP contains an inherent message of large city bias and a danger that small towns may be 'left out' and marginalised in policy processes. To avert this danger and potentially to avoid reducing the development gap between larger and smaller centres national LED policy needs to take on a specific focus on smaller centres and therein to identify suitable LED strategies and responses for these localities. In this regard there is emerging some useful and innovative new research around 'small town regeneration' in the Eastern Cape which potentially may have wider implications for the development of small towns in South Africa as a whole.

8. Capacity Challenges Facing LED

During the past decade, across both academic and policy writings, substantial attention has been devoted to issues of local capacity for planning and implementation for LED. The issue of capacity challenges has been well addressed in CSIR work for Municipal IDP support, the report of the DPLG Development Planning Indaba, and the DPLG LED profiles for 2005-7. Capacity issues have been viewed as one of the core factors behind the limited national successes as recorded in LED planning during the first decade of democracy. The theme of capacity challenges for LED needs to be unpacked, however, in terms of different sizes and resource base of municipalities/provinces.

The scale and geography of the problem regarding capacity has been well-documented. In the 2006 DPLG Framework it was stated that: “it needs to be recognised that large areas of the country many communities have very limited capacity to contribute in a conventional manner to the alleviation of poverty in general and to solve their own immediate socio-economic challenges” (DPLG 2006: 24). Research undertaken by the CSIR for DPLG disclosed that 28 percent of municipalities “currently require basic institutional and administrative infrastructure to be established before they are ready to undertake, manage and drive a proper IDP” (DPLG, 2004: 8). Although there are clear spatial variations across provinces, the sharpest capacity divide is, perhaps, that recorded in academic investigations between the group of larger well-resourced metropolitan areas and a select number of secondary centres on the one hand, and the mass of LMs and DMs in small towns and rural areas on the other.

Overall, the national scale analysis pointed to a disturbing conclusion that only 10 percent of municipalities currently were able to formulate and implement a good basic IDP, including for LED. The CSIR work stresses the issues of ‘lack of real strategic planning’, ‘inadequacies of financial planning’, and ‘external inter-governmental relations (alignment)’, and lack of interaction between municipalities in planning. Academic research through both national and local level investigations in LED confirms these widespread capacity shortcomings. Indeed, in one recent investigation on IDP processes and LED planning in Mpumalanga, it was revealed that most LMs did not have a copy of the neighbouring municipality’s IDP or if they did, they did not consult it in their IDP process.

It must be acknowledged that considerable recent effort and funding has been devoted (and continues to be given) by DPLG with assistance from other organizations, including the European Union, to deal with these capacity issues across the country. At the heart of addressing the existing capacity shortcomings is the intergovernmental support strategy which offers a targeted and differentiated approach to support, including through PIMS support centres and the IDP Nerve Centre (which seemingly has not been updated since 2006). Other important support channels are being developed through the training and skills initiatives of the Local Government SETA.

A reading of a cross-section of the DPLG Internal profiles for 2005-07 points to the conclusion that some progress undoubtedly is being made in addressing capacity issues, particularly in respect of the preparation of coherent LED strategies. A key question, however, that can only be answered in future is the extent to which in those particular municipalities in receipt of considerable external expert assistance for capacity building there is occurring a process of ‘institutional learning’.

Uneven success is recorded currently in respect of DPLG assessments on issues of implementation with the widespread need highlighted to extend local ‘in-house’ capacity for

implementation. It is, for example, observed that “The Nkangala District has made progress in the development of a LED strategy but the important concern is the capacity of the District to implement the plan” (DPLG 2005 Nkangala District Profile). Even the most capacitated municipalities do not escape criticism and seemingly evidence capacity shortfalls in their LED planning. As illustration, it is noted that Johannesburg “needs to be more open to national policy influences, and in particular ASGISA” (DPLG 2007 Johannesburg Profile) and a real need exists for the Nelson Mandela metropolitan authority to develop further capacity for a more sophisticated understanding of local economy (DPLG 2006 Nelson Mandela Metro). A common shortcoming of much IDP/LED planning across the country is that strategies are often poorly referenced in spatial terms, a finding that reflects another element of capacity shortcoming in terms of developing local spatial plans.

Finally, in respect of municipal capacity for planning and implementation of LED, special attention must be drawn to the sector of tourism. The case for looking at tourism in particular is highlighted by its status as one of the priority sectors identified in ASGISA and for its widespread recognition across the country in LED planning. It is clear from a number of recent investigations that the awareness and capacity of most municipalities to plan for the needs of tourism is seriously open to question. The particular needs of tourism relate to marketing, support for route development, regulating tourism development, the brokering of new tourism products, the management of tourism sites, provision of tourism infrastructure, and of direct support for emerging tourism businesses. The lack of knowledge in most LED units of the needs and importance of tourism means that most municipalities have failed to develop tourism plans or coordinated approaches for tourism development as part of LED strategies.

The result of lack of understanding or awareness of tourism is ‘missed opportunities’ for the development of local economies and for local enterprises. Although the major capacity constraints regarding tourism planning might relate to small towns and rural areas, undoubtedly, these criticisms would apply to most municipalities across the country, including even those larger metropolitan authorities responsible for managing some of major national tourism ‘hotspots’. Overall, it must be suggested that urgent consideration be given to developing the capacity at local level to appropriately plan for the importance of tourism. Similar comments might be made in respect of local planning in relation to other identified priority sectors under ASGISA.

Before concluding this discussion on capacity constraints for LED, it is necessary to turn away from what might be termed ‘low level’ capacity issues to the less fashionable questions of ‘high level’ skills required for supporting LED over the next decade. The cadre of South African University scholars who are researching and teaching LED is remarkably small. Moreover, it is seemingly in a state of current decline as a result of a number of factors, not least the lure of higher-paid jobs or consultancies outside of the university environment. This situation is potentially of long-term concern for it threatens the high level skills base of LED. It is suggested that the DPLG/DTI must engage more fully with certain Universities with a view to developing LED partnerships in order to support the expansion of research, independent monitoring of LED, and professional training.

9. Key Issues for Policy Discussion and Research

Throughout the above discussion, several ‘gaps’ or issues for policy discussion were identified. By way of conclusion, this section provides a brief summary of the most important

of these policy gaps, which point to areas of undeveloped research in LED. More especially four select groups of issues can be highlighted from this analysis as warranting further detailed consideration.

- First, is the issue of *identifying* and subsequently *maximizing* competitive local advantage. In terms of identifying competitive advantage the discussion pointed to severe shortcomings of existing spatial data for undertaking local economic planning and for identifying competitive advantage. In terms of maximizing competitive local advantage the analysis also highlighted the tension between getting an appropriate balance in LED planning between creating an enabling environment on the one hand and supporting sectors of recognized competitive advantage on the other hand. Further, in terms of maximizing local competitive advantage, the discussion spotlighted the specific problem of building local capacity to support tourism as a lead sector for LED across both large cities, small towns and rural areas.
- Second, is the question of *the most appropriate support base for developing SMMEs*. In terms of the SMME support, the linkage of LED to unfolding SEDA programmes is an issue that is of critical importance for developing local economies. The lessons from the first decade of support initiatives in delivering BDS must be built upon in terms of new support initiatives. The role of local initiative is potentially reorienting towards a ‘facilitative’ approach, including improving the business environment through regulatory change to assist SMMEs and of monitoring the provision of BDS support through ‘third parties’, including NGOs, or the private sector including through direct provision and ‘embedded services’.
- Third, is the issue of *building upon ‘good practice’ LED and provision of support for specialized local and regional clusters of enterprises*. It is evident that support for joint action, learning networks, and upgrading has been shown to be central to achieving ‘collective efficiency’ and the enhanced competitiveness of localized clusters of activity. The upgrading of clusters should be an important aspect of local industrial policy in large cities. But, the opportunities for supporting clusters are not confined to only manufacturing activities. The imperative for building and upgrading clusters in tourism, creative industries and crafts is critical for not only the ‘urban future’ of LED but also to support small towns and rural areas.
- Finally, is the thorny but *critical LED challenge of enhancing the ‘second economy’*. Of crucial importance is the need to leverage support for ‘community empowerment’ and to unleash local creativity and innovation. New windows of LED opportunity currently may be opening with emerging initiatives for locally-rooted financial institutions, such as village or co-operative banks. Overall, however, an effective LED policy for the second economy still remains undeveloped and unclear. Indeed, the second economy continues to represent ‘an out of the box challenge’ for LED planning as a whole.

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