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The Hexagon of Local Economic Development and LED in South Africa

Dr Jörg Meyer-Stamer

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Author: Dr Jörg Meyer-Stamer (Deceased 1 May 2009)

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Mesopartner Partnergesellschaft, Stresemannstrasse 12, 47051 Duisburg

Contact: info@mesopartner.com, www.mesopartner.com

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This paper has been an outcome of intense interaction between the author and GTZ's LED Programme in South Africa, in particular with Shawn Cunningham.

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Overview: What is a Hexagon?



Figure 1: Conceptualising key issues Local & Regional Economic Development: The Hexagon

Local economic development (LED) has been implemented in industrialised countries for decades. Since the 1990s, many developing countries have seen the launch of LED activities. But despite the pervasiveness of the practice, there is no academic discipline which lays the conceptual foundations. LED thinkers and practitioners rather borrow elements from a variety of disciplines such as economic geography, urban planning, economic sociology, and regional economics. What does not seem to exist is a conceptual framework for LED which integrates the main elements in a way which makes it easy for practitioners to organise their thinking, planning and practice. The Hexagon of LED provides this framework.

The Hexagon of Local Economic Development emerged as a didactical tool. Its purpose is to organise the key issues in local economic development in a way which makes it easy for LED practitioners to memorise them and to explain LED to newcomers. Behind this is the thinking that it is possible to organise the main concepts and instruments of local economic development (LED) along a number of triangles. Altogether there are six triangles, and adding them graphically creates the Hexagon.

The Hexagon is useful in introducing practitioners and stakeholders to the main concepts and instruments of LED. It helps widen the perspective, understand the complexity of LED and appreciate the trade-offs and conflicts involved in doing LED. It is useful to subsume the triangles under three main headers:

- The first and second triangles are about the hard core of conventional local economic development, i.e. the key categories and instruments.
- The third and fourth triangles are very useful in adding an innovative twist, a wider perspective and a broader scope to LED. They explore the connections between LED and other approaches to local development.
- The fifth and sixth triangle are about practical issues in implementing an LED initiative. They look at governance and process management.

Local Economic Development in South Africa

South Africa is a special case when it comes to Local Economic Development. Whereas in other countries LED tends to be a voluntary activity of local government, often born out of necessity or desperation, in South Africa it is a statutory activity. The South African constitution establishes “developmental local government”, and this includes the responsibility for economic development.

In recent years, the main vehicle for the developmental task of local government has been the IDP process. IDP stands for integrated development plan (for details see www.pimss.net), a five-year-plan which looks mainly at infrastructure development but also includes LED activities. The preparation of IDP includes comprehensive consultation exercises with local communities, albeit it appears that local business communities are not very present in these exercises. LED in IDP more often than not relates to infrastructure and buildings, not to other typical LED interventions like business networking or business development service programmes.

Until about 2003, the conceptual discussion around LED in South Africa primarily focused the issues of poverty alleviation, upliftment of the previously disadvantaged persons (black empowerment) and infrastructure development.¹ LED used to be conceptualised as part of a social policy and an affirmative action agenda. LED was often identified with small projects with an extremely limited impact which addressed marginalised groups of persons. Evaluations found that the impact of such interventions was very limited. At the same time, it became obvious that there needs to be a stronger effort to enhance the job creation capacity of the established formal economy. Thus, creation of location-based competitive advantage is a theme has been introduced into the LED policy.

1 Tomlinson, Richard (2003): The Local Economic Development mirage in South Africa. *Geoforum*, Vol. 34, pp. 113-122.

The First Triangle (Hard core LED #1)

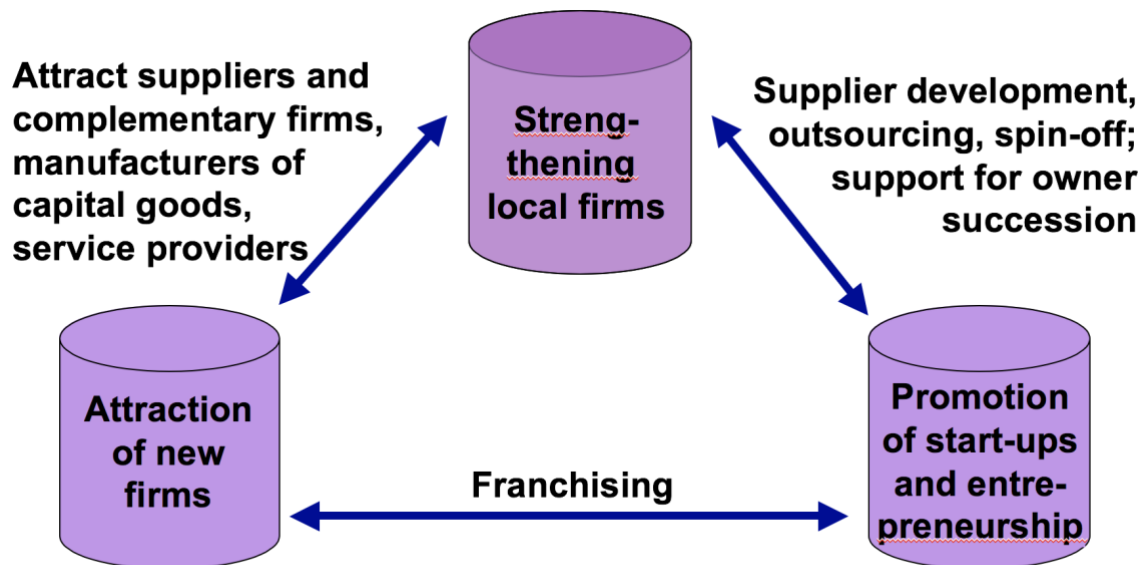


Figure 2: The target group of regional economic development: Firms

Economic development is based on the efforts of companies – some of them government-owned, but most of them private. The main target group of local economic development (LED) are thus companies, in particular the private sector. Further target groups include the workers and the public sector; we will come to them when we discuss locational factors.

What kind of companies make up the main target group? LED efforts are often primarily directed at attracting companies. The main goal of traditional LED efforts (i.e. in industrialised countries: from the 1960s to the 1980s) was to attract new investors. It is much too narrow, however, to limit LED in this way. There are three types of companies which can be the targeted in LED: Local companies, external investors and start-up companies.

It depends on the features of a given location which of these three types is the priority target. Locations with a weak local company base and little entrepreneurial dynamism will often try to attract external investors. In locations with a strong local economic base, promoting the competitiveness of existing companies is often much more relevant than attracting companies.

Yet the main message is: Do not conceptualise the three target groups in an either/or manner. Instead, try to realise the synergies between them:

- Do not try to attract external investors in a random manner. Try to attract companies that strengthen the profile and competitive advantage of the local economy. Try to build clusters or sub-sectors that can benefit from shared suppliers or infrastructure.
- When you go for start-up promotion, look at the opportunities which are created through outsourcing, subcontracting and spin-offs. Also look at the succession issue in established

companies. For a longer-term perspective, introduce entrepreneurship as a topic in primary and secondary education.

- Assess the opportunities which franchising creates for potential entrepreneurs in your location.

The relevance of the first triangle for South Africa

LED in South Africa primarily targets new start-ups, mostly under the headings of "emerging entrepreneurs" or "self-employed persons" as well as "black economic empowerment" (BEE). This reflects the fact that the vast majority of the population was seriously restricted in its business options before 1994, and that massive support for emerging entrepreneurs is crucial in an economy which is highly concentrated, i.e. where most sectors are run by monopolies or oligopolies.

The political rationale for this focus of LED is obvious and necessary. Yet it is advisable to widen the scope of LED, without losing the original focus:

- Ironically, LED activities tend to ignore existing black businesses. Yet improving the environment for existing businesses might also lead to strong job creation effects, over and above the promotion of new BEE entrepreneurship, especially if the latter is not done competently and does not lead to sustainable businesses.
- LED activities around outsourcing and subcontracting activities of established big corporations, parastatals and even government, create a potential for existing and start-up businesses which so far has not been sufficiently explored. Too much emphasis is on the tendering process for big deliveries, and the small purchases are lost in the process. Small scale supplying is often the gateway for very small business to get into this lucrative market.
- National LED policy explicitly and quite rightly argues against "smokestack chasing", i.e. attracting external investors through subsidies and fiscal incentives. Unfortunately, this leads to a constellation where investment promotion – which should not be based primarily on financial incentives anyway – escapes the attention of LED stakeholders altogether. Attracting investments from outside can strengthen the local economy and create jobs, thus being in line with established focus areas.
- South Africa has a very high density of franchises. However, the franchise principle so far has not been properly applied to the business development service (BDS) industry. There are examples of commercially successful local business services centres. But the opportunity that rests in turning this business into a proper franchise has not been realised so far. The concept of Social Franchising could be explored, where the Franchisor is a not-for-profit entity, whilst all the Franchisee outlets are profit driven.

Reconsidering and reconceptualising LED from the perspective of this triangle may lead to an improved and more effective LED practice in South Africa. It would entail the practical operationalisation of the revised National Policy on LED.

The Second Triangle (Hard core LED #2)

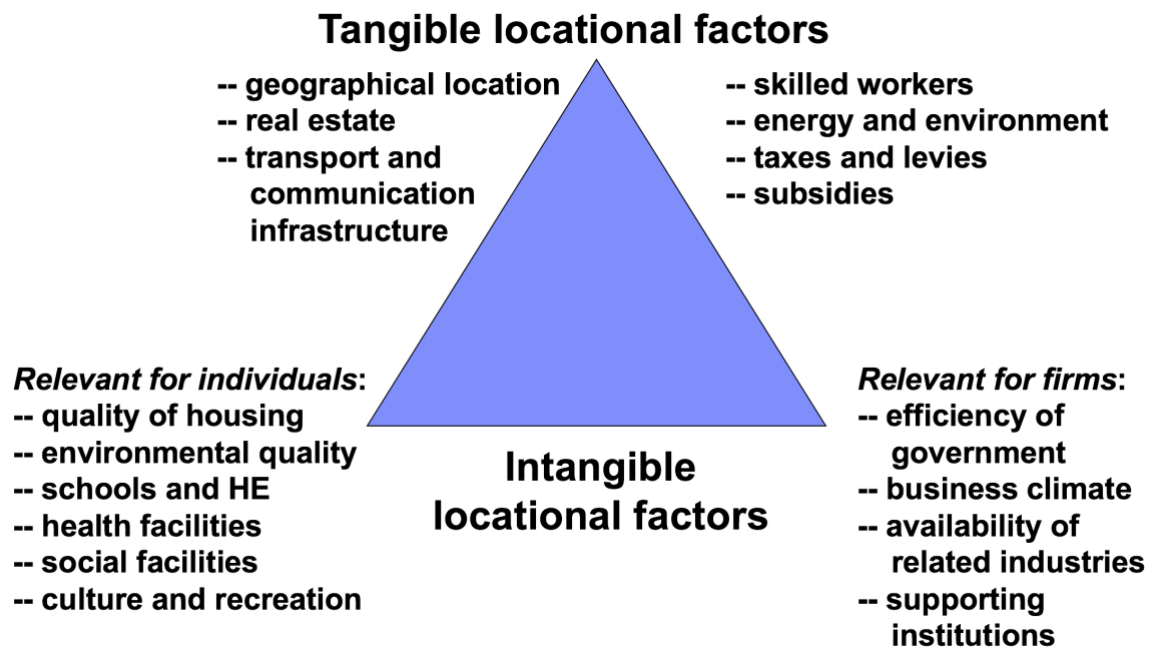


Figure 3: Locational advantages

Locational factors are those features which determine whether a given town, city or region qualifies as a favourable setting for doing business. There are three types of locational factors:

1. Tangible locational factors, which are mostly "hard" criteria and which can often be quantified
2. Intangible factors relevant for companies, which are "soft" factors and not easily quantifiable
3. Intangible factors relevant for professionals, which are basically those factors that define the quality of life in a given location

There is a clear hierarchy between the three types of locational factors. Most relevant are tangible factors. It is only after tangible factors become increasingly similar across locations that intangible factors become relevant as a distinguishing feature. To put it differently: If your location, unlike other locations which are nearby, suffers from unreliable electricity supply, water scarcity, and dreadful roads, even excellent supporting institutions and the most effective business network program will have only a limited effect.

Regarding intangible factors, the focus for good practice has changed from specific business promotion activities to the overall local business environment. In the past, government often tried to promote business even though it itself was the most important obstacle for business – due to high taxes, complex and excessive regulations, and complicated, protracted and

unpredictable permit processes. A key objective of local governments these days is to remove unnecessary obstacles to business activities.

The relevance of the second triangle for South Africa

The triangle of locational factors is at the very core of LED thinking and practice in many parts of the world, but not necessarily in South Africa.

- LED interventions in South Africa address certain tangible locational factors, in particular infrastructure development (including the IDP process) and skills development.
- In recent years, in many countries the main focus of LED has been to remove government-created obstacles for business. Typical examples are
 - the removal of decade-old regulations which are no longer relevant but still could stand in the way of businesses; in many cases the authorities are not even aware of these regulations, and should consider a comprehensive audit of them (e.g. regulations that limit small business to operate from a residential premise could be revisited),
 - the speeding-up and simplification of permit processes, so that businesses can invest and create jobs quicker; in some cases a simple transaction is being stretched to a month-long process through bureaucratic procedures, negligence or avoidance of decision-making,
 - regular meetings between top officials in local government and businesspeople to find practical ways of improving the business environment; this simple, obvious exercise has the potential of improving the business environment in a speedy and effective way
 - the reorganisation of interaction between businesses and local government offices, for instance through the creation of Internet gateways, the set-up of first-stop agencies (which competently inform businesses about permit procedures and regulations) and the set-up of one-stop agencies (so that businesses must no longer interact with a multitude of government agencies, which sometimes even contradicted each other).

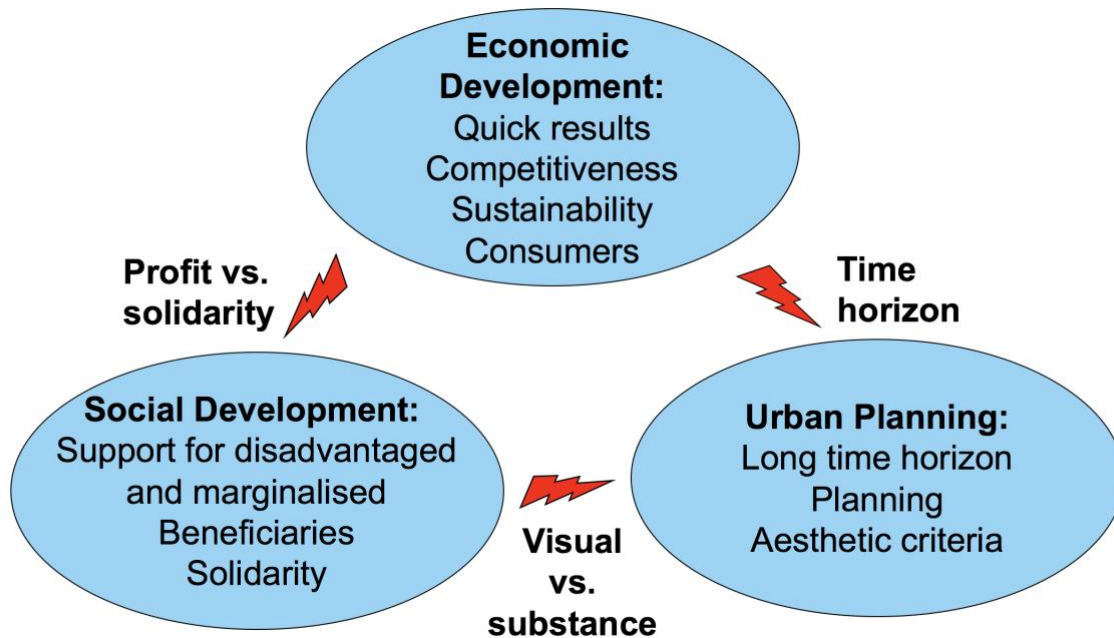
It holds big potential to implement such activities in South Africa.

- Another main LED activity in many countries is the promotion and facilitation of business networking. Typical examples are
 - the organisation of informal get-togethers for businesspeople,
 - the creation of mentorship schemes where experienced businesspeople dedicate some time to mentoring young businesspeople,
 - cluster initiatives to promote closer interaction between businesses, in order to improve competitiveness and stimulate innovation.

This also holds big potential for South Africa.

The Third Triangle (Innovative LED #1)

Figure 4: Focus and Synergy 1: Separating



Local economic development is not just about things like business promotion, SME support and micro enterprise promotion.

- The overarching goal of LED is to create jobs and income, and therefore it is crucial to involve employment promotion measures and organizations in a given LED effort. Employment creation and poverty alleviation, however, is also a distinct activity with its own delivery structure, and it is usually addressed as part of social policy. This, in turn, leads to something which is often a major confusion in LED: the distinction between *economic* development (business promotion) and *community* development (employment creation, poverty alleviation). Sometimes these activities get mixed up, and as a result usually neither economic nor social objectives are achieved.
- One of the key issues of LED is to enhance the locational quality of a given place. If you look at the tangible and intangible locational factors, you find that some of them are closely related to business promotion, whereas many other have to do with issues which are usually addressed under the heading of Urban Development, which has its own concepts and approaches – and often a much longer time horizon than LED.

From the perspective of a business promotion agency / actor, in order to design and implement an adequate LED effort, it is crucial to understand what is going on in these two neighbouring fields: What are the main concepts and instruments used there? And what are the synergies which can be realised by connecting concepts, measures and actors from these different fields?



Figure 5: Focus and Synergy 2: Connecting

The relevance of the third triangle for South Africa

In South Africa, LED is being approached from all the three different angles involved in this triangle.

First, there is the poverty alleviation angle. In the past, the majority of "LED projects" were not intended to create sustainable businesses or to improve the environment of existing businesses. They rather addressed the immediate problems of marginalised persons who have little or no income and opportunities. These projects often went wrong; evaluators found quite a number of failed poultry, brick making, bakery, and vegetable garden projects. The failure of these projects was primarily due to the basic design and support problems. Often funders demanded that such projects were driven by a group of people, not by an individual, and that they made no profit (but also no loss). This led to unclear governance structures inside the project – nobody was really in charge, and as soon as anything went wrong everybody blamed everybody else. Also, what is the incentive to put in hard work if you can't make a profit anyway?

The solution is not to stop projects which benefit the really poor, but rather expand and manage them in a professional way. Poor people with little or no education need and deserve the support of the society. But it is wrong to call activities which are supposed to benefit them "LED projects", or even worse, "businesses". These projects are an outcome of social policy.

They do not primarily have an economic rationale. They do not aim at stimulating business and economic growth. They rather help those people who would continue to be poor and marginalised even if there was economic growth. These projects are poverty alleviation projects that are supposed to stimulate self-help, and they should be named accordingly. In South Africa's situation, it is certainly justified that Government encourages and supports such projects, especially as it is moving rapidly to genuine local economic development.

Second, there is the urban planning angle. This includes infrastructure development and, most of all, the IDP process. This approach to LED is planning-driven, which effectively means that there is a long period of time between conceiving a project and observing an impact on the ground. Planning and proper LED are closely related, but it is fatal to assume that planning is the same as LED. An urban planner is perfectly happy if something he is planning today has a practical impact three years from now. From a business perspective, this is unattractive. A given business doesn't even know whether it will still exist three years from now. For a business, LED is only attractive if it leads to visible improvements within a short period of time.

This takes us to the third angle, namely business-oriented LED. This is a rare phenomenon in South Africa, especially outside the big metros. The business sector is only occasionally involved in LED – and often drops out if LED is much talk and little action.

The Fourth Triangle (Innovative LED #2)

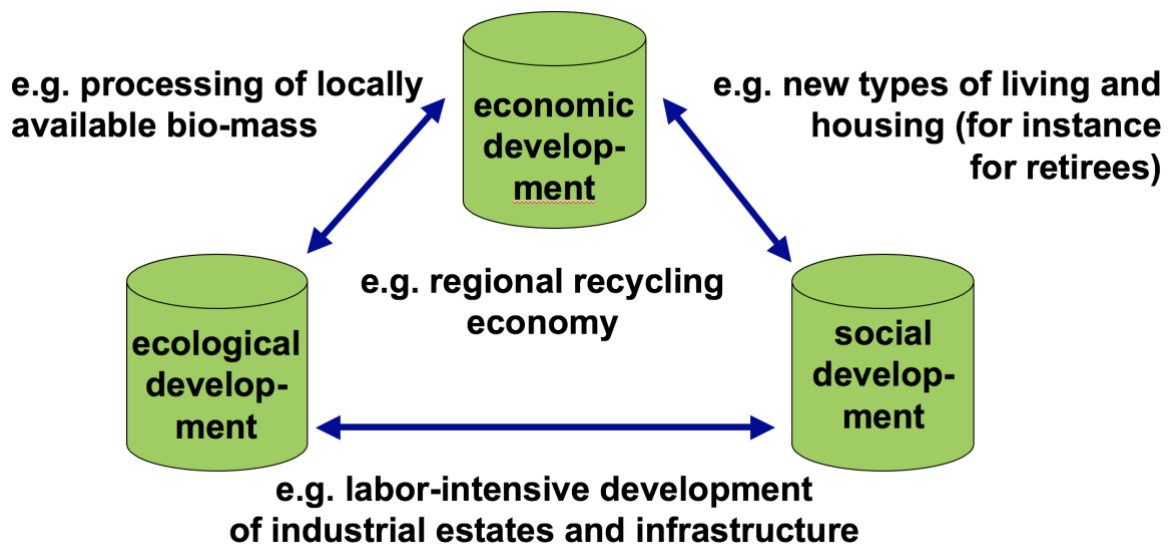


Figure 6: The Triangle of sustainable development at the regional level

Sustainable development often appears as a somewhat abstract concept. However, it becomes much less abstract if it is being conceptualised at the local level. A good example is vegetable oil. For instance, have you ever considered how much vegetable oil restaurants and

industrial kitchens in your city are consuming? And have you ever considered that much of it is actually not consumed but rather disposed of after some period of use? If you start to ask around, you may come to figures which amount to several tons of vegetable oil which is monthly poured into sewers or local rivers. This is not only creating environmental problems. It is also a big waste. Used vegetable oil still has a high energy content, and after a process of refining it can be used, for instance, to run internal combustion engines. Why not run local buses on recycled vegetable oil? If you think about it, it quickly becomes obvious that this is an excellent manifestation of the concept of sustainable development:

- it solves several environmental problems (pollution of rivers, air pollution from conventional petrol),
- it creates an economic opportunity, since the collection and refinery operation ought to be run as a private enterprise (probably with some public seed money),
- it makes a contribution to social development, in particular in terms of creating low-skilled jobs in the oil collection business.

This example shows two things. First, sustainable development can be a very concrete concept. Second, thinking about issues from this perspective opens the mind to note potentials which otherwise go unnoticed. In this sense, sustainable development can play the role of giving orientation in terms of strategic orientation. It can also contribute to motivate local actors for a LED effort. There are many places, including in poor regions, where environmental problems such as waste disposal are pressing. Many such problems indeed are business opportunities, and conceptualising them in this way can pave the way for an effective LED initiative.

The relevance of the fourth triangle for South Africa

The triangle of sustainable development is an outcome of the discussion on ecological aspects of development. The idea is to reconcile economic, social and ecological / environmental development, i.e. to make sure that development is not following an exclusively economic rationale but also leads to social development while not destroying the environment. Connecting these three points as part of local development initiatives is a relatively new approach in industrialised countries. As yet, it is only starting to make its way to South Africa.

In fact, a foreign observer in South Africa might get the impression that energy is for free. The degree of inefficiency in the use of resources, in particular energy, is stunning. The negligence of biomass as a source of energy is as stunning as the absence of proper systems for the recycling of materials. While on the one hand this is a very serious problem which is reinforcing problems of poverty and marginalisation, on the other hand it is also a big opportunity since it creates the possibility of quick gains for local-level activities which address energy efficiency and recycling.

At the local level, activities such as recycling tend to cover all three corners of the triangle of sustainable development at the same time. They are creating a business opportunity. They

are creating jobs and income, often for low-skilled persons. And they solve environmental problems.

The Fifth Triangle (Organising LED #1)

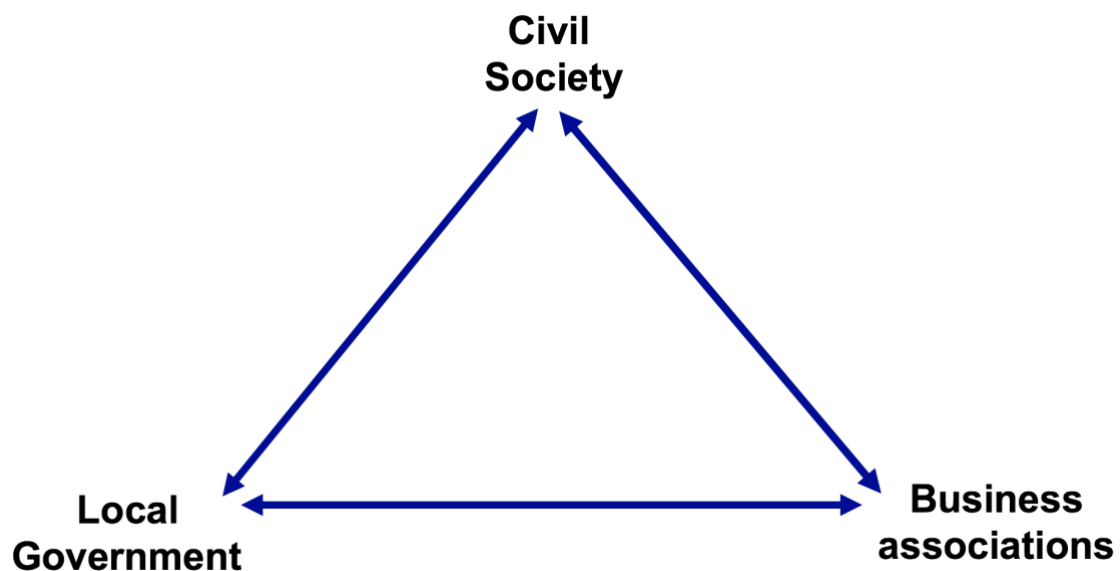


Figure 7: The Triangle of Governance

Any local development effort involves the public and private sectors, and probably also other actors. The basic pattern of a successful LED effort involves a network, not an organization. LED is based on a policy-network, i.e. a set of different actors, governmental as well as non-governmental. The reason is that each actor contributes specific resources – legislative power, money, information and knowledge, credibility and prestige, and others.

On the public side, the legislative and several branches of the local or regional executive have to play a role. On the private side, chambers and other business associations have to participate. But there may also be active involvement of companies, most obviously real estate and development firms and utilities, but also other companies, such as large firms involved in supplier development or community development activities. NGOs also may play a role, as may local universities or other organisations.

In many developing countries, it is still common to find not particularly strong actors on either side. Public agencies are under financed, lack highly skilled staff, are excessively bureaucratic, have no idea what a business mindset is like, etc. Private organizations, in particular chambers and association, are understaffed, not very professional, highly politicised, offer little services to their members, lack a clear mission, etc.

In a setting like this, it is tricky to launch a LED initiative. At the same time, it will often be unlikely that these problems get sorted out for some reason in the medium term. Therefore, stakeholders who want to launch a LED initiative have work with the institutions which are there. Rather than waiting for public sector reform to happen and organizational development in chambers and associations to fall from heaven, a LED initiative creates an opportunity, and possibly a motivation, for these things to occur. Successful LED is based on a constructive relationship between local government, the private sector and possibly other stakeholders. Practical LED interventions which look at quick gains are a possible way to create a constructive relationship.

The relevance of the fifth triangle for South Africa

Successful LED is based on the interaction between an efficient government, which understands business principles and economic development, and an effectively organised private sector which can voice the interests of private business but also assure compliance with agreements. Both conditions apply to South Africa only to a limited extent.

- Local government is often not strong enough. As staff frequently changes, and as departments go through repeated rounds of restructuring, the effectiveness of local government suffers.
- Even though some local business chambers are very strong and effective, most are not. It is not even rare to find locations without any effective organisation of the private sector.

Moreover, both sides are often hesitant to co-operate, since both sides look at the other side with scepticism and suspicion. Under these circumstances LED gains an additional dimension. It is not just about practical interventions to make a location a better place to do business. It is also about learning and organisational development processes both in local government and in the private sector. For both sides, this involves an important learning opportunity. In the recent past, LED often involved public sector employees trying to run quasi-businesses, sometimes well, often not. At the same time, individuals who are running successful businesses are often not successful at all when it comes to running a business association.

In practice, LED tends to be based on a local "LED Forum". In fact, there is an opinion that the best way to start LED is by creating an LED Forum. But some observers would argue that this is the best way to assure that LED is stillborn. When an LED process reaches some maturity, an LED Forum can serve as an information platform for coordination, leveraging resources and know-how, and troubleshooting. However, if an LED Forum is created at the outset, this usually means that representatives from all sorts of sectors – business, health, social, education, security – spend a lot of time figuring out how to approach and implement LED. As there are no consistent guidelines on how to organise an LED Forum, bewilderment may quickly turn into frustration, as the Forum cannot agree on its purpose. Stakeholders start dropping out, first of all business representatives, who are under serious time constraints. In the absence of the business perspective, however, the Forum then easily wanders into the social policy / poverty alleviation field and is soon afflicted by Projectitis, i.e. the proliferation of little projects which draw heavily on the capacity of local government but have little impact.

The Sixth Triangle (Organising LED #2)

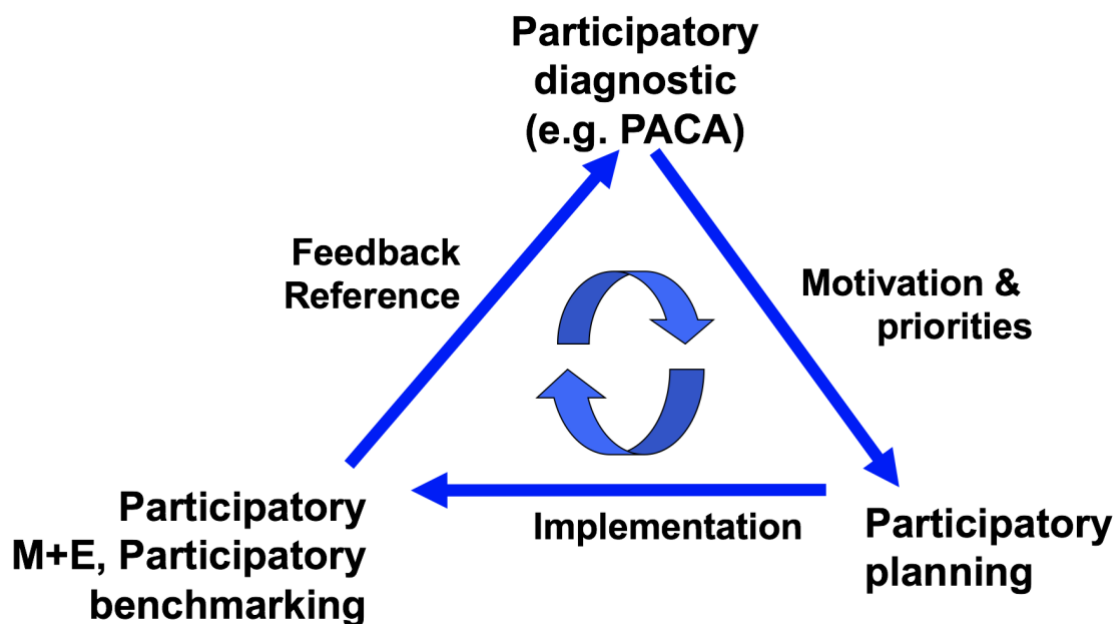


Figure 8: The Triangle of Process Management

Local economic may have a beginning, but it never ends. It may start with central government delegating economic development responsibilities to local authorities, or with local stakeholders deciding to take things in their own hands because problems of unemployment and poverty become unbearable. But once you have started with LED, you will find out that you are dealing with a moving target: as soon as have solved the easy problems, such as particularly clumsy licensing processes, you are identifying more tricky problems which take longer to sort out. And it goes on like that.

The best way of conceptualising LED is as a permanent cycle, which in terms of learning involves three cornerstones:

- participatory diagnostic
- participatory planning
- participatory monitoring, evaluation and benchmarking

These learning- and knowledge-oriented points lead to three more practical activities:

- motivation, mobilisation and prioritisation
- implementation
- reflection and adjustment

LED is an iterative process which runs around this triangle over and again. LED is also a learning process. It is desirable that LED starts with simple activities which lead to quick successes. But over time LED may become more ambitious and more sophisticated.

The relevance of the sixth triangle for South Africa

The basic idea of the triangle of process management is that LED is an iterative process. The metaphor of the triangle also indicates that iterations should be visible as such; the opposite is a process which runs endlessly, or collapses and has to be restarted. Perceiving the process as a sequence of iterations also is a constant reminder that one should not get lost in the details of managing the current stage, thus losing sight of the other steps. In particular, this refers to the later steps of the process, in particular evaluation, benchmarking and learning, which should not be introduced as an afterthought.

The practice of the LED process in South Africa so far looks not so much like a triangle but rather like a funnel. There is a big mobilisation effort, but then the process gets narrower and narrower, and in the end very little comes out. This probably has a lot to do with confusion about how to start LED in the first place. What is missing is a clear concept for the early steps, i.e. the identification of opportunities to create growth and scrapping bottlenecks which limit economic growth. This early stage is either driven by discussions in an LED Forum or by IDP-like planning processes with limited practical results on the ground. This is why we suggest to employ the PACA methodology at an early stage, in order to move quickly into action. With PACA, an LED process will look like a funnel which stands on top: Initially, there are only a couple of activities going on. But over time, as stakeholders learn LED and get empowered, the number, size and scope of interventions widens significantly.

Conclusion

LED is a long-term activity which is mostly based on short- and medium-term projects. Over time, LED tends to go through a life cycle with three typical phases, which are summarised in the following table.

	Kick-off phase	Lasso phase	Network phase
Focus	Get LED projects moving	Get LED projects under control formulate a strategy	Segment activities (sector initiatives, landmark projects) delegate responsibilities pro-forma strategy
Governance pattern	Informal	Clear distribution of tasks and responsibilities Possibly creation of central LED agency	Central information-exchange, decentralised responsibilities
M+E pattern	None	Informal	Emerging formalization
Reward system	Excitement personal motivation	Discipline and suffering Salary	Identification with project objectives Latitude of decision-making
Crisis	Fragmentation, lack of co-ordination	Exploding co-ordination effort Increasing number of LED professionals = rising fixed cost Time- and energy-consuming strategizing effort De-motivation of volunteers	Network failure

It is not useful to try to leapfrog any of these phases. It is rather important to be aware of the existence of this life-cycle, and to reflect occasionally on which phase you are in – and whether it might be advisable to move to the next stage.

In South Africa, localities tend jump into the second phase before completing, or even initiating, the first one. It is not rare to find localities where the LED officer's shelves are overflowing with consultants' project feasibility reports, but where very few LED activities are actually going on. One of the reasons is the legal mandate mentioned above: Many local governments think that, because they have mandate for LED, they must and can do on their own, without involving other actors in the delivery. The results are very disappointing. South African localities will only get a significant outcome from LED if they address it in a more comprehensive, balanced way – as indicated by the Hexagon.