

AN ASSESSMENT OF THE IMPACT OF THE DEMOCRATISATION OF
PUBLIC MANAGEMENT APPROACHES THROUGH MUNICIPAL SERVICE
PARTNERSHIPS ON LOCAL ECONOMIC DEVELOPMENT
IN THE CHRIS HANI DISTRICT MUNICIPALITY

BY
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SCHOOL OF PUBLIC MANAGEMENT AND DEVELOPMENT

University of Fort Hare
FACULTY OF MANAGEMENT AND COMMERCE
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SUPER VISOR: PROFESSOR SIPHO BUTHELEZI
DECEMBER 2007.

Abstract

Local Economic Development and Integrated Development Planning are seen as being inextricably linked. It is critical to ensure that the planning and implementation of a municipality's LED activities are carefully co-ordinated and initiated within the context of the municipal IDP. This is because the IDP is mechanism used to co-ordinate LED with other development strategies adopted by the municipality, so it is essential that LED planning should be closely linked to the IDP to avoid duplication of services. It is suggested in this research, that IDPs assist in the promotion of socio-economic development.

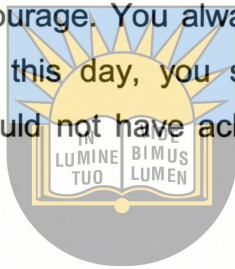
While South Africa is facing daunting challenges for municipal service delivery, because of limited financial resources and human expertise, the local government has established municipal service partnerships with other public institutions, private sector, as well as, community-based and non-governmental organisations. These are seen as means to local economic development. MSPs provide a better option to speed up service delivery and to ensure local economic development in the municipality, they are effective and efficient as they draw the expertise of service partners.

All this is done under the observation policy and legislation laid by the national and provincial government, so that local government becomes developmental, in the sense that it will have to work with its citizens to harness local resources for LED.

Acknowledgements

From the moment I entered the doorsteps of the University of Fort Hare, I knew God had destined me to be in this place, to share part of my academic life with the lives of other scholars and the Fort Hare Community, for this I would like to thank the almighty God for giving me strength, dedication and guidance all the way through this research. This is neither by my might nor by my power, but by the spirit and grace of God, thank you dear Lord for all the wisdom you bestowed in me.

I would also like to extend my gratitude to my mother, Nellie, J Nyama for giving me love, support and courage. You always taught me how to handle pressure; you inspired me to this day, you shared with me the spirit of excellence, without which I would not have achieved this much. Thank you mom, I love you.



Professor Sipho Buthelezi, you were there when I thought my world was crushing down on me. You stood by me when I had no one to lean on, for that reason and for your patient supervision, thank you very much. The light you shed in this research and the experience you imparted to me, I will always be thankful.

Without love and care from my family (siblings, cousins, in-laws, nephews and nieces), I just cannot stop wondering where I would be, but I am so sure I would not have been where I am today. Thank you guys for seeing me through and for all the sacrifice you made because you believed in me so much, trust me good people that kept me going.

Colleagues and friends, I cannot underestimate the knowledge and advice you gave me throughout the struggle. Only you would know why I call it a struggle, I thank you so much.

Needless to mention is the love and support my girlfriend, Chiedza gave to me. Because of you sweetheart, we have one more, not only to shelve, but also, cherish with our unborn children.

For the six years I have been in this institution, I have been welcomed by many as a cousin, a friend, a brother, a son and a lot more, all the same even if I have not mentioned your name because I am not good in assigning names, take it from me, you are all equally acknowledged. It is my belief that, everyone whom I have met has had a positive impact in my life in one way or the other, from mere smiles and just a hie along the corridors of life to other perceivably greater things, a blessing is a blessing and I thank you all for the kindness, that you all have shown to me in this endeavour.

Always remember to commit to the LORD in whatever you do, and your plans will succeed (Proverbs 16 v3).



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Dedication

I would like to dedicate this piece of work to my late father, Mr L.W Nyama. A loving father, you were. You would have been proud of your son, together with mom, Sakhile Ndlovu. I also dedicate this research to the late Ms B.H Sikakane “Mabuyi” (My former supervisor, friend and mother).

To all of you, I say Rest in Peace.



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Declaration

I, Lennox Nyama, the undersigned declare that this research is my original work, it has not been submitted at any institution for the same purpose or any other. To this end, all the sources used have been duly acknowledged.

Signature:



Date:

December 2007



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List of Acronyms

ANC	African National Congress
ASGISA	Accelerated and Shared Growth Initiative of South Africa
CBO	Community-based Organisation
CHDM	Chris Hani District Municipality
DBSA	Development Bank of South Africa
DEAET	Department of Economic Affairs, Environment and Tourism
DFA	Development Facilitation Act
DOL	Department of Labour
DPLG	Department of Provincial and Local Government
ECDC	Eastern Cape Development Co-operation
GEAR	Growth, Employment and Redistribution
HDIs	Historical Disadvantaged Individuals
IDC	Industrial Development Co-operation
IDP	Integrated Development Planning
JIPSA	Joint Initiative on Priority Skills Acquisition
LED	Local Economic Development
LGTA	Local Government Transition Act
MSA	Municipal Systems Act
MSPs	Municipal Service Partnerships
NGOs	Non-governmental Organisations
NGWA	National Wool Growers Association
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
SDF	Skills Development Fund
UN	United Nations

CHAPTER 1

DEMOCRATISATION OF PUBLIC MANAGEMENT APPROACHES

Introduction

A new democratic order 'must foster a wide range of participatory democracy in partnership with civil society on the basis of informed and empowered citizens'. Chapter 7 of the *Constitution of the Republic of South Africa, 1996* (Act 108 of 1996) states that a municipality must 'structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community'. It also encourages 'the involvement of communities and community organisations in the matters of local government'. Another constitutional objective of local government is the provision of democratic and accountable government to communities. While local government was being elevated in importance, the Reconstruction and Development Programme redistribution-led strategy was giving way to an economic strategy that emphasised economic growth as the means to development.

In April 2000, the *White Paper on Municipal Service Partnerships* was issued: it encourages partnerships between municipalities and community-based organisations as a way to 'promote economic development in communities, strengthen democracy and empower civil society at the local level'. Notably, it also states that 'efficient, competitive, transparent and socially equitable procurement and contracting arrangements are essential to ensure that MSPs actually improve service delivery. There is also a need to ensure that the historically disadvantaged can participate fully and effectively in municipal procurement and contracting'. The *Municipal Systems Act, 2000* (Act 32 of 2000) proclaims that 'a municipality may determine a preference for categories of service providers in order to advance the interests of persons disadvantaged by unfair discrimination. A preferential procurement policy and MSPs go hand in hand, also The *Municipal Systems Act* contains a chapter devoted to community

participation, which stated that 'a municipality must establish appropriate mechanisms, processes and procedures to enable the local community to participate in the affairs of the municipality' Outsourcing work to small-scale black contracting firms and emphasizing community labour garnered support from the people.

To promote community employment, the creation initiatives such as labour-intensive construction projects and basic service provision by community-based contractors have to be established. The municipalities have to facilitate small business development, including 'through forming partnerships in the outsourcing of certain services and reviewing restrictive tendering procedures'. Late in the 1990s local government adopted Local Economic Development strategies and policies that underlined local government's facilitating and enabling role with respect to development. Only a strong, synergetic partnership between central and local governments, civil society organisations, and the private sector and donor communities can rectify the inequalities of the past. Local government in South Africa is undergoing a process of transformation from apartheid's highly unequal, racially classified local administrative apparatus, towards a more integrated, developmental, equitable and sustainable sphere of government. Private sector participation in service delivery is seen as necessary to provide cost-effective services. The aim of this study is to investigate the nature of local economic development strategies, through fostering different types of partnerships.

Background to the research

The Chris Hani District Municipality formerly known as Stormberg District Council, was established in terms of the *Municipal Structures Act*, 1998 (116 of 1998) and the *Systems Act*, 2000 (Act 32 of 2000). It is a Category C municipality with a population of 810 302 (census 2001). It has eight (8) category B municipalities: Emalahleni, Engcobo, Inkwanca, IntsikaYethu, InxubaYethemba, Lukhanji, Tsolwana and Sakhisizwe. CHDM has one District Management Area,

Mountaim Zebra and the main functions of CHDM are the provision of bulk services in water, sanitation, refuse and electricity, which it exercises through its constituent municipalities. Chris Hani had an estimated population of 822,891 in 2001, giving it a low population density of 22km². The majority of the population (ninety three percent) lives in the former Transkei and Ciskei areas. Coloureds make up four percent and the proportion of whites is two percent. Xhosa is the majority ethnic group, CHDM, *IDP*, 2002.

Chris Hani provides only seven percent of provincial value added, but this hides significant non-monetary subsistence value in the former homelands. Agriculture is the largest private sector activity in Chris Hani, providing 13 percent of value added and 21 percent of employment, CHDM, *IDP*, 2002.

Livestock farming is the predominant activity. The Karoo farms around Cradock and Middelburg focus on small stock, producing wool, mohair and mutton. Queenstown is the centre for the cattle trade, drawing from surrounding areas and the Transkei. Commercial black cattle farmers are present around Cofimvaba and Engcobo, where private ownership of farms is possible. Some forestry is also found in the areas around Cofimvaba.

Irrigation takes place on the upper reaches of the Fish River around Cradock, utilising water from the Orange River through the Fish River transfer scheme. Manufacturing is the next most important activity in the private sector, providing eight percent of value added and five percent of employment.

Agro-processing industries predominate with furniture the most important, followed by food processing and wood products. Queenstown is the main manufacturing centre, with a small furniture industry and with dairy processing and wood products also present. Food processing is occurs in Cradock and Middelburg.

Tourism is limited in Chris Hani, but there is some development in farm tourism and through game farms. The long distance N6 and N10 national routes pass through the province and there is potential for 'stop-over' tourism in farms and guest houses. There is beautiful scenery in the Karoo and in the Elliot/Engcobo area. The Mountain Zebra National Park near Cradock is an attraction. Government services play a significant role in the economy, providing 44 percent of value and 41 percent of formal employment. Total employment in 1999 was estimated at 65,310, of which 55,454 was formal employment and 9,856 were informal (15 percent of total).

Statement of the problem

In practice many LED initiatives have confused aims, and lack an explicit link with poverty reduction; half of South Africans are poor, due to a high unemployment rate, it may make sense to effectively adopt municipal service partnerships that can shape, influence and promote local economic development. Services may be improved by introducing more democratic public management approaches, which draw on the knowledge of public service workers through partnerships between public agencies, and by means of public-community partnerships (Albo, 1993, 67). Municipalities face a number of challenges ranging from poor economic development, huge backlogs in service infrastructure, inability to leverage private sector resources for development and so on. After all, municipalities are the governments close to the people and are fully responsible to carry out a mandate to deliver services that best meet public demands.

Objectives of the research

The research is aimed at achieving the following;

- to assess the impact of municipal service partnerships on local economic development; and
- to identify means by which the best can be obtained out of existing municipal service partnerships for the development of local economies.

Significance of the Study

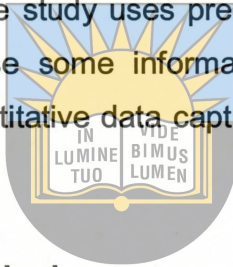
Local government can play an important role in promoting job creation and boosting the local economy. By providing good quality cost-effective services and by making the local area a pleasant place to live and work in, the municipality will have made a good start to sustainable local economic development.

The idea behind this research is to show how the existence of a good relationship between the government and the community, particularly in the area of service delivery, is regarded as important, for it involves increasing opportunities for employment, opportunities for citizens to participate in decisions that affect their lives, promoting partnerships between the state and society, and giving citizens a real sense of ownership of development projects. Manor, values the role that a development agency (Non-governmental organisation) can play in boosting people's efforts through the provision of social and technical direction as well as material assistance. He argues that tools, training and education should be given to locals so that they can participate in the implementation of a project, (1999, 71). Furthermore, the establishment of a community structure in conjunction with the undertaking of a project attaches local residents to the development initiative. Ordinary people are mobilised and empowered; they gain a sense of ownership and take an interest in the project.

Municipalities could play the leading role and should ensure economic advancement in their areas of jurisdiction. In essence, a municipal entity is responsible for improving local economies by the creation of employment, hence poverty alleviation. However, sometimes municipalities cannot afford this alone. It, therefore, becomes imperative to establish partnerships with the private sector or community-based organisations, non-governmental organisations or other municipalities as mechanisms to foster local economic development and effective service delivery. The overall idea of MSPs is to enable the municipality to realise its constitutional responsibilities listed in section 152 and 153 of the *Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)*.

Research methodology and design

Methodology is a system of methods and procedures followed to collect information and data pertinent to a project and there are various approaches to conduct research. The idea that the same goal may be attained through different methods seems to manifest itself across social science researchers. Two basic methods can thus be distinguished: qualitative and quantitative methodologies. Bless and Higson believe that a comprehensive research follows both methodologies, however these approaches absolutely depend on the setting to which the research is conducted, (2002, 86). All methods do have applicability in appropriate situations, hence the study uses predominantly qualitative research mixed with quantitative because some information or data that can not be adequately recorded using quantitative data capturing, hence words can be use to describe a social phenomena.



The Quantitative Research Method

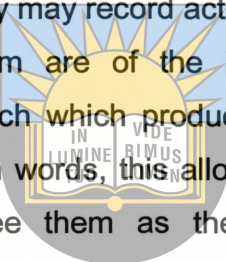
The method uses quantifying data to record aspects of society (Bless & Higson, 2002, 86). It makes collected data to be reduced to some numerical representation of what is being measured. Emphasised in this method is the quantification of data into numerical variables; regarded as scientific observations that are recorded in a numeric or some other standardised coding format (David & Mutton, 2004, 36). Quantitative data is expressed in a numerical form, for example, numbers, percentages and tables (Lawson & Omrod, 1994, 218). Therefore, quantitative data refers to units or element that have been or which can be counted and put in numerical scale.

However, there are some kinds of information or data that cannot be quantified, but expressed only by words to describe a social phenomenon.

The Qualitative Research Method

This research will also follow a qualitative approach. Sarantakos, defines qualitative research as a method of social research that employ no quantitative

standards and techniques, data is usually presented in words, (1998, 467). It is a way of collecting information on the knowledge, values, feeling, attitudes, beliefs and behaviours of the target population (Leedy and Omrod, 2001, 147). According to David and Mutton, qualitative data refers to the collection of materials in a linguistic form, a form that has not been translated into a location on a numerical scale. Qualitative research, also known as non-experimental research methodologies are specifically used in this research because of the researcher's understanding that they tend to observe, analyse and describe what exists rather than manipulating any factor as it may be in experimental research. The method's data is in form, they may record actual verbal utterances that occur naturally. Brynard and Hanekom are of the idea that qualitative research methodology refer to the research which produces descriptive data, generally people's own written and spoken words, this allows the researcher to know the respondents personally and see them as they are, thereby enabling the researcher to interpret and describe the actions of the people (1997, 29).

The logo of the University of Fort Hare, featuring a sun with rays and an open book with the motto 'IN VIDE LUMINE RIMUS' written on it.
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Population and Sample

The population in this study refers to the subjects which the researcher wishes to research in order to establish or advance knowledge, that's why Brynard and Hanekom states that "...population does not refer to the population of a country but to all objects, subjects, phenomena, cases, events or activities which the researcher wishes to research" (1997, 43). According to De Vos. *et. al.*, population refers to all potential subjects who poses the attributes in which the researcher is interested and it is a set of entities in which all measurements of interest to the researcher are presented, (2000, 198).

In this study, all category B local municipalities in the Chris Hani District Municipality constitute the research population. However, like any other social science researcher, one is frequently faced by the fact that a researcher cannot collect data from everyone in the category being researched. As a result, the researcher will get evidence from a portion of the whole in the expectation and

hope that what is found in this portion applies equally to the rest of the population.

Sampling

In a few words, Bless and Higson say "... if one wants to collect accurate information about a group, the best strategy is to observe each of them", (2000, 96) However, following what has been mentioned earlier on, it is also possible to obtain accurate conclusions by examining only a portion of the whole population, which is a sample. A sample shows actual participants in the research. Sampling has been utilised in this research for the population is too large to undertake a research, at least a representative group (sample) will be selected.

According to Akra and Lane ,a sample consists of elements of the population only considered for the actual inclusion in the study, thus it can be viewed as a subset of the population in which the researcher is interested (2000, 199). Sampling becomes a systematic way of choosing a group small enough to study and large enough to be representative of the population under study, Shipman (1988, 52)

Sampling rests on the premise that some way has to be found to generalise to a population without having to gather data concerning each element of that population. Careful sampling will be done in this study fro the following reasons:

- sampling enables the researcher to study a relatively small section of the population and still be able to gather data representative of the whole;
- gathering data on a sample will be less time consuming and less costly for the researcher, hence samples may produce more accurate data economically; and
- It will be feasible to use a sample because a complete coverage of the total population is seldom possible and all members of the population can not be reached.

Sampling Techniques

Sampling theory distinguishes between, probability and non-probability sampling methods. Probability sampling provides known, equal and calculable chances that each element of the population can be included in the research. Such sampling methods like simple-random sampling stratified sampling, cluster sampling and multi-stage sampling are only but a few examples of probability sampling. Non-probability sampling suggests that chances of all elements to be included in the sample are not even and unknown. It follows among other methods such as purposive/judgemental sampling, quota sampling, convenience sampling and snowball sampling, Bless and Higson, (2002, 87).

This research will make use of non-probability sampling techniques, specifically, purposive/judgemental sampling and snowball sampling techniques.

Purposive/judgemental Sampling

Purposive sampling technique allows the researcher to identify a sample composed of only those found to be more relevant to the study. Based on the researcher's judgement to select those that shall participate, thus the most informative samples in the municipality shall be established. The study focuses individuals responsible for the implementation of Local Economic Development initiatives in the CHDM and its service partners. It is therefore deemed to be relevant because it constitute both the rural and urban population of Chris Hani District Municipality. In the municipality, LED officers and the Corporate Services department headed by the Municipal Manager, the Councilors for Local Economic Development together with various community-based project managers and established partners in service provision forms the targeted sample as they are more relevant to the study.

This method shall be used because samples should be chosen in such a way that the demand for representativeness and generalisation is not compromised. Moreover, the objective of choosing a sampling procedure is to select a sample

that will be representative of the population from which they are drawn. According to Nel, the sampling procedures must be designed so that samples of the actual population are collected accurately and consistently and reflect the concentrations of the population at the place and time of research,(2001, 345).

Snowball sampling

Since the researcher does not yet know other service partners, it will be effective to utilise snowball sampling because the municipality will identify these partners for the researcher.

Data Collection

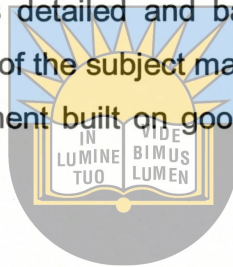
Data collection is a form of collecting information from various sources. This can be done through a number of instruments. For the purpose of this research, only two sources of data will be used, thus primary and secondary sources of data. Literature from published and unpublished articles, journals, magazines or newspapers becomes a secondary source of data in this research, where as information derived and extracted from the population targeted in this research is the primary data. Layder has identified quite a number of instruments that can be used to gather data, among these are interviews, intake forms, questionnaires, and survey and attendance records, (1993, 54). This study will however make use of questionnaires to gather the much needed data.

Interviews

An interview is a conversation between two or more people where questions are asked to obtain information from the interviewee. The researcher will use structured interviews with planned and detailed questions. A structured interview is one in which questions to be asked, their sequence, and detailed information to be gathered are all predetermined; this is needed because maximum consistency across interviews and interviewees is wanted. The interview questions will be arranged in such a way that interviewees can give lengthy and short answers.

There are major reasons why interviews will be considered in this research, such reasons include that:

- they appraise validity of the research, in that not only is the researcher able to get what respondents say, but also how they say it, which reveals information about complex and emotionally laden subjects;
- they give room for flexibility. This gives the researcher a chance to repeat or rephrase questions to make sure that they are understood and answered correctly and consistently;
- information given here is detailed and based on the respondents' real experiences on the depth of the subject matter; and
- they are a simple instrument built on good conversation skills which the researcher already has.



Questionnaire

A questionnaire is a method used for collecting data by means of written questions which calls for responses on the part of the respondent; they may be self-administered or group-administered (Grinnell, 1990,14). In this case the researcher will apply self-administered questionnaires. It is further defined as a formal, written, set of closed-ended and open-ended questions that are asked of every respondent in the study. This study will combine the two. This enables respondents to fully express themselves and to give detailed and precise information. It gives accurate and adequate information about the situation on the ground. More reasons as to why questionnaires will be used in this research are as follows:

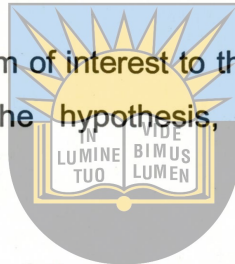
- they are less expensive and requires much less skill to administer, so the researcher can use research assistants to distribute and collect questionnaires;
- they make researcher's life easier for they can be used to reach large numbers of people simultaneously, meaning they can cover a wider area and can obtain information from many people;

- they give respondents greater confidence in their anonymity so they can give out information freely especially on the views they fear might be disapproved or might get them into trouble; and
- generally questionnaires give respondents ample time for filling them out hence each answer may be considered carefully, which reduces mistakes and respondents' inconveniences.

Outline of the research

This research is composed of seven chapters, which are as follows:

Chapter 1 introduces the problem of interest to the researcher. It focuses on the objectives of the research, the hypothesis, research questions and the significance of the research;



Chapter 2 gives an exposition of the policy and legislation that informs both MSPs and LED. It shows how the two are represented in the country's legislation, thus the legislative framework that these approaches operate on;

Chapter 3 provides a critique and explanations of the strategies of Local Economic Development and the need for such are provided. It gives an exposition on the advantages and significance of Local Economic Development;

Chapter 4 focuses on Municipal Service Partnerships, the forms, conditions they take and their implications to host municipality;

Chapter 5 then outlines the research methodology and design. It provides data collection instruments, techniques and sources, including the population and sample together with the sampling procedures;

Chapter 6 presents the data collected and its analysis. It checks on how the Municipal Service Partnerships have been used to promote or influence community involvement in matters of Local economic development; and

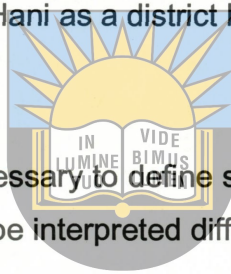
The final chapter 7 lays out general conclusions under which recommendations will be provided.

Delimitation of the study

Financial and time constraints may hinder the researcher from considering all local municipalities under Chris Hani as a district Municipality

Definition of terms

The researcher has found it necessary to define some of the terms used to avoid ambiguity, as such words could be interpreted differently.



Municipal Service Partnerships

Municipal Services Partnerships are arrangements between or within local government, state and or private sector entities aimed at providing public infrastructure, community facilities and related services. Such partnerships are characterized by the sharing of investment, risk, responsibility and reward between the partners, Van Niekerk (1998, 32).

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Local Economic Development

LED is essentially a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each-other, to create new jobs and stimulate economic activity in an economic area, Blakely (1994, 16)

Local Government

Local government is a corporate body or entity within the local sphere of government exercising legislative and executive authority within an area of its

jurisdiction. It is established in terms of section 41 of the *Constitution of the Republic of South Africa*, 1996(Act 108 of 1996) to provide essential services, such as, housing, water and sanitation, public works refuse collection, recreational facilities and other public amenities for the local community, Hampton,(1989, 56).

Developmental Local Government

Developmental local government is a local government that is committed to work with its citizens and groups within its community to find sustainable ways to meet their social, economic and material needs to improve their quality of life, White Paper on Local Government, (1998).

Democratisation of Public Management

Public Management is the exercise of power or authority to manage the state's resources and affairs. Democratisation therefore comprises the mechanisms and processes through which citizens and groups articulate their interests, exercise their legal rights of participation and meet their obligations. This is a process in which citizens participate in local governance decision-making. Citizen participation is enshrined in the *Municipal Systems Act*, 2000 (Act 32 of 2000) which places the responsibility on local government to foster mechanisms and process that promote participation by the ordinary citizen.

Conclusion

Building local democracy is a central role of local government, and municipalities should develop strategies and mechanisms to continuously involve citizens, business and community groups in processes such as planning and budgeting. One of the strengths of democratising public management approaches is that it involves the community in development, delivery and democracy. Community and activist organisations can use mechanisms like ward committees, IDPs and development forums, budget consultation meetings and ward councillor public meetings to influence the policies and programmes of local government. To this

end, it becomes imperative to find out the extent to which localities inter act with the municipalities for the development of local economy.

The following chapter provides the policies and legislation that governs MSPs and LED. It is important to note that the two do not take place in an uninformed manner, the policy and legislation are there to inform MSPs and LED.



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CHAPTER 2

POLICY AND LEGISLATIVE FRAMEWORK FOR LOCAL ECONOMIC DEVELOPMENT AND MUNICIPAL SERVICE PARTNERSHIPS

Introduction

After more than a century of white rule and the segregation of the majority black population, multiracial elections were held for the first time in April 1994, paving the way for the dismantling of the apartheid regime. In a bid to rebuild the South African economy and state structures the government agreed on the long-term development goals of the country. In 1994, building on broad consultations between government and stakeholders, government developed a Reconstruction and Development Programme to guide South Africa through the transition toward the final eradication of apartheid. The RDP identified as key development priorities, the boosting of production and household income through job creation, productivity and efficiency, improving employment conditions, improving access to basic physical and social services, health care, and education and training, and establishing a social security system and other safety nets to protect the poor and vulnerable groups. To support the RDP implementation, in 1996 the Government adopted a Growth, Employment and Redistribution Strategy (GEAR). The principles and basic tenets highlighted in the White Paper on Reconstruction and Development Programme and the GEAR remain to serve as the overarching vision in terms of LED.

On the other hand, both LED and MSPs are promoted through a range of overarching policies and laws that include, *inter alia*, the 1994 Reconstruction and Development Programme, the *White Paper on Local Government*, 1998 and the *Local Government Systems Act*, 2000 (Act 32 of 2000). These identify a key developmental role for municipalities and emphasize the need to address the needs of the poor in planning. Other initiatives such as the Integrated Development Planning (IDP) process provide support for implementing LED by including an economic component and promoting a participatory approach.

In this chapter, all policies, laws, rules and regulations set to guide the establishment of MSPs and execution of LED will be discussed in length. This section will highlight the influence of such policies, measuring them against their success to date in terms of promoting local economic development through the democratisation of public management approach by service partnerships.

Providing the framework for policy

The new 'developmental' expectation being placed on local government and its essentially pro-poor focus is as a result of a series of broadly inter-related contextual and policy considerations in South Africa. This is because the country's unemployment and poverty crisis necessitates the urgent search for innovative employment generating strategies, including those at the local government level. Local government is also legally mandated in terms of the national Constitution, (Act no. 108 of 1996) to 'promote social and economic development'. This marks a significant departure from the previous service-orientated focus of local government and has led to a series of important policy and legal developments as outlined below. This Constitutional principle has been refined and is outlined in-depth in a whole chapter in the key *White Paper on Local Government*, 1998 which formally introduced the concept of 'developmental local government'.

The principle of the devolution of power to communities, and through their elected representatives, is a key feature of ANC policy, which reinforces popular participation in local affairs and development, and emphasises a focus on the needs of the poorest. In terms of the Reconstruction and Development Programme, which provides a broad statement of developmental objectives, 'development is not about the delivery of goods to a passive citizenry, (1994, 29). It is about active involvement and empowerment'. What evolving government policy reflects are efforts to make such principles a reality. These principles have been entrenched in section 152 of the *Constitution* (1996), which reinforces the place of local government in society and which requires it to 'encourage the

involvement of communities and community organizations in matters of local government'.

Local government's status and its potential developmental role have been enhanced through a commitment to the principle that local government is not merely the lowest tier of government, occupying a subordinate position, but rather that it is a distinctive 'sphere' of government, occupying a unique and important position in society. These principles are spelled out in the *Constitution* (1996) and reinforced in the main local government policy document, the *White Paper on Local Government*, which states that, 'government in South Africa is constituted as national, provincial and local spheres of government. These three spheres are distinctive, interdependent and interrelated. Local government is a sphere of government in its own right and is no longer a function of national or provincial government. It is an integral component of the democratic state', (1998, 14).

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The South African government has firmly wedded itself to a neo-liberal economic agenda. In terms of the key policy document in this respect - the '*Growth, Employment and Redistribution*' strategy government is pro-actively seeking to lay the basis for market-driven economic expansion and growth, (1996, 23). This strategy details the role of government as being that of facilitating market expansion, with local government having a key role to play in stimulating economic development through investment in infrastructure to 'crowd in private investment and boost short-term economic performance'. Recently, accompanying the debate around the first and second economy there have been moves to increase the role of government agencies in promoting growth and development, and a return to the debate around the role of the "developmental state".

These are some of the issues that encouraged a range of key policies and laws. It is important to note that Policy interventions either take the form of direct intervention for example, a specific economic strategy, or operate through the

refocusing of municipal activity such that planning and service provision involves and prioritises the needs of the poorest sections of the community. Key within such arrangements is that they identify the key development role for municipalities; and they assign developmental powers and enshrine obligations such as the need for participatory development and the need to prioritise the requirements of the needy communities in planning. In addition, these considerations led to the development of policy thrusts on LED.

In addition to the consideration of the key LED-related policy and laws, one also needs to consider a range of planning and operational procedures which give greater clarity and focus to the principles of pro-poor development. These include:

- the linking of LED with the Integrated Development Planning process which all municipalities are obliged to engage in;
- the concept and application of popular participation in the development process, to ensure that the needs of all communities are met;
- the establishment of appropriate institutional/application mechanisms; and
- the funding mechanisms put in place to help attain LED, many of which have an apparent pro-poor focus, that is, job creation and poverty alleviation.

A significant policy and legal basis for pro-poor LED has clearly been laid in South Africa, and the key policy instruments in support of local economic development and partnerships are enumerated upon in this section.

The RDP (1994)

This was the first key post-apartheid policy document. The RDP was launched as the main ANC policy document before the elections in April 1994, and then formalised in September 1994 as the new government's *White Paper on Reconstruction and Development*. It was designed to provide a broad framework for South Africa's new development vision, priorities and operational procedures

and it aimed to both lay a basis for subsequent laws and actions to address the extreme social and spatial inequalities engendered by years of apartheid, and to promote overall development (ANC, 1994). In a radical break with the past, the RDP was promoted essentially as a 'people-driven process', focusing, 'on our people's most immediate needs, and (relying), in turn, on their energies to drive the process of meeting these needs', (1994:18)

The RDP also placed considerable emphasis on grassroots empowerment, suggesting that, 'development is not about the delivery of goods to a passive citizenry, but rather it is about active involvement and growing empowerment' which integrates 'all levels of the state together with non-governmental organisations and community-based organisations' (Lyons and Smuts, 1999: 2155). The RDP as such emphasised the fundamental links between participation and pro-poor economic development.

The RDP was designed to tackle inequality and poverty through the need for 'an integrated and sustainable programme', (1994:2) which was motivated by the recognition that the legacy of apartheid cannot be overcome with piecemeal and uncoordinated policies. The RDP brings together strategies to harness all our resources in a coherent and purposeful effort that can be sustained into the future. These strategies will be implemented at national, provincial and local levels by government, parastatals and organisations within civil society working within the framework of the RDP'.

The ANC government argued that the broad goals of the RDP could be achieved by giving much more responsibility for development to local government, which is viewed as the primary level of democratic representation. As the RDP stresses, 'the democratic government will reduce the burden of implementation which falls upon its shoulders through the appropriate allocation of powers and responsibilities to lower levels of government, and through the active involvement of organisations of civil society' (1994:17). Therefore, the RDP laid a policy basis

for enhancing participation through local government, and provided principled support for grass-roots action.

White Paper on Local Government (1998)

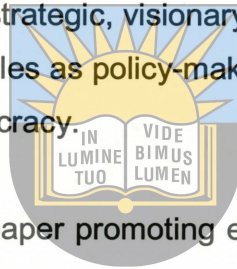
Four years after the publication of the RDP document, the new developmental role of local government was further articulated in the *White Paper on Local Government*, which stressed that, ‘...the central responsibility of municipalities is to work together with local communities to find sustainable ways to meet their needs and improve the quality of their lives’ (1998,17). In order to achieve ‘developmental local government’, local authorities are now expected to maximise both social development and economic growth and to help ensure that local economic and social conditions are conducive for the creation of employment opportunities (Nel and Binns, 2001, 10). In addition, local government is required to take a leadership role, involving citizens and stakeholder groups in the development process, to build social capital and to generate a sense of common purpose in finding local solutions for sustainability.

Local municipalities thus have a crucial role to play as policy-makers, and as institutions of local democracy, and they are urged to become more strategic, visionary and ultimately influential in the way they operate. Building upon the strategies of the RDP, ‘developmental local government’ is charged with promoting empowerment and redistribution, and delivering four significant and essentially pro-poor outcomes. These are laid out in the *White Paper on Local Government*, (1998, 23) as:

- the provision of household infrastructure and services (such as electricity, water and sewerage), with priority given to the delivery and subsidisation of at least a basic level of services to those who currently have little or no access;
- the creation of liveable, integrated cities, towns and rural areas, in which the spatial legacy of apartheid separation is addressed;

- the achievement of local economic development, in which local government can play an important role in job creation and in boosting the local economy through the provision of business-friendly services, local procurement, investment promotion, support for small businesses and growth sectors; and
- community empowerment and redistribution.

The *White Paper on Local Government* marked a key break from past conceptualisations of local government in South Africa. The policy called on municipalities to become more strategic, visionary and ultimately influential in the way they operate, with crucial roles as policy-makers, as thinkers and innovators, and as institutions of local democracy.



Specific elements in the white paper promoting empowerment and redistribution include:

- the provision of below-cost services to the poor;
- supporting community organisations; and
- linking profitable growth and investment with redistribution and development.

In terms of MSPs, the *White Paper on Local Government* spells out the framework and programme in terms of which the existing local government system will be radically transformed. It establishes the basis for a system of local government, which is centrally concerned with working with local citizens and communities to find sustainable ways to meet their needs and improve the quality of their lives. Among the options local government can establish to provide for sustainable service delivery that ensures social and economic development, the white paper suggest public-public, public-private, community-based and non-governmental partnerships.

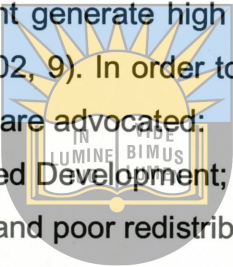
Local government is the sphere of government that interacts closest with communities, and is responsible for the services and infrastructure so essential to the people's well being, and is therefore tasked with ensuring growth and development of communities in a manner that enhances community participation and accountability. The White Paper is just an expression of the belief that decentralisation and democratisation of public management of a special type can work. South Africa has developed a unique form of decentralisation in the context of the creation of three spheres, which are required to govern in a cooperative manner and democratisation of management approaches through municipal service partnerships.

The LED Draft Policy (2002)

The title of the 2002 paper (Refocusing Development on the Poor) is an explicit and bold statement of pro-poor LED. The document adopts a defined 'pro-poor' stance and though not opposing more conventional business-focused activities, argues that in the light of the country's economic and social situation that poverty 'pro-poor' development interventions must be the priority for local governments to pursue. It is also important to note that 'pro-poor' LED is also referred to as 'developmental LED' (dplg, 2002). The challenge identified in the document is the need to develop pro-poor LED methods that can address both poverty and entrenched inequality. In pursuit of this ideal the document identifies the following goals/objectives for local governments:

- to establish a job-creating economic growth path;
- to embark on sustainable rural development and urban renewal; and
- to bring the poor and disadvantaged to the centre of development. In order to achieve this, it suggests that LED needs to be holistic, innovative, creative and redistributive, (dplg, LED Policy, 2002, 9).

The document argues for 'developmental LED'. In terms of understanding what this involves, the document states that 'non-developmental LED' takes place when equity is not addressed and social objectives are secondary. Key problems with traditional approaches are that the traditional 'smoke-stack chasing' approach often leads to a 'race to the bottom', and 'place-marketing' often skews the objectives and benefits of development, resulting in little or no benefit for those most in need. Instead, pro-poor options should entail a greater measure of redistribution, carefully designed to maximise local social and economic development objectives' and new investment should be 'directed so as to maximise integrated development generate high quality jobs, and assure clean production processes', (dplg, 2002, 9). In order to promote Developmental LED, the following broad interventions are advocated:

- 
- foster Community-Based Development;
 - promote links wealthy and poor redistribution areas;
 - human capital investment;
 - delivery of infrastructure and services to those most in need;
 - plug leaks in the local economy - i.e. buy-local and try and prevent money leaving the area;
 - retain and expand local economic activity; and
 - identify a 'lead' LED strategy for an area, (dplg, 2002: 10).

In order to achieve the above, it suggests that local government needs to focus on Capacity Improvement Instruments; Market Expansion Instruments; and Cost Reduction Instruments. From an institutional perspective, the document argues that municipalities should establish a LED Unit and that there are defined roles that a local government can play in terms of LED. The functions of an LED Unit are to co-ordinate municipal activities, to manage the LED strategy, to monitor projects, to coordinate all stakeholders, to manage the LED budget and to create an LED database. The four identified roles for such a unit are to co-ordinate, facilitate and stimulate LED and to act as an entrepreneur/developer.

Policy guidelines for Implementing LED in South Africa, 2005

In 2005, the Department of Provincial and Local Government (DPLG) released a new policy statement on the topic of LED. The document aligns LED with the RDP, GEAR, the Micro Economic Reform Strategy and a diverse range of current government policies, including The Provincial Growth and Development Strategies and municipal Integrated Development Plans (IDPs). The Microeconomic Reform Strategy seeks to address the inequalities in the country and to build on the RDP, by focusing on issues of the geographical spread of activity, integration, black economic empowerment, knowledge-led growth, skills development and state responsiveness. Issues of, both community development and growing the economy through appropriate mechanisms and investment feature in the document.



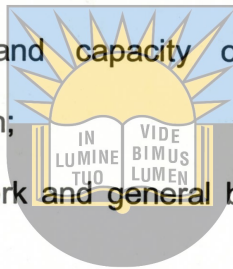
In contrast with the earlier LED policy document, investment promotion features more prominently, as does business retention and support for a range of enterprises and growth sectors, not just the smallest firms. In terms of alignment with current government thinking it argues the need to support 'both' the first and second economies and working in collaboration with a range of government programmes to achieve this goal. It also argues that LED is a key mechanisms to close the gap between the 'two economies (dplg, 2005).

In addition to the laws and policies directly supporting and encouraging pro-poor LED, other instruments provide support for implementation. These are the Integrated Development Planning process, the pursuit of participation and appropriate institutional and funding mechanisms. These are discussed in turn.

In order to effect local economic development, Integrated Development Planning is a key mechanism to provide a planning framework within which to situate pro-poor development and LED specifically. An important element of the 'developmental local government' responsibility is for each of the new municipalities to produce an integrated development plan. The formulation of

IDPs became a legal requirement for local councils in November 1996, as a result of the passing of the *Local Government Transition Act, Second Amendment Act (1996)* and in the *Municipal Systems Act (2000)*. Chapter 5 of the latter Act is concerned specifically with Integrated Development Planning and calls upon each municipal council, within a prescribed period after the start of its elected term, '...to adopt a single, inclusive and strategic plan for the development of the municipality which:

- links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality;
- aligns the resources and capacity of the municipality with the implementation of the plan;
- forms the policy framework and general basis on which annual budgets must be based; and
- is compatible with national and provincial development plans and planning requirements binding on the municipality in terms of legislation' (MSA, 2000,18).



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In terms of what an IDP should include, the *Municipal Systems Act* clearly brings out the pro-poor dimensions of government thinking. The Act states that an IDP must reflect:

- the municipal council's vision for the long-term development of the municipality. (Special emphasis is to be placed on the municipality's most critical development needs);
- an assessment of the existing level of development in the municipality. (This should include the identification of any communities which do not have access to adequate basic services);

- the council's long-term development vision and should consider the need for social and economic advancement of disadvantaged sections of the community;
- the IDP must describe in detail how the municipal council will realise its development objectives and the time frame within which those objectives will be realised; and
- the council's spatial development framework, which should guide the way in which the physical area will be developed, section 26 (MSA, 32 of 2000)

According to the national Department of Provincial and Local Government, 'IDPs are local versions of the RDP, grounded in infrastructural planning and development, upon which rests the crucial linkage between meeting basic needs and fostering more competitive economic activities' (dplg, 2000:14). The South African Forum for Effective Planning and Development in 1995 defined Integrated Development Planning as:

'...a participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity and the empowerment of the poor and the marginalised' (dplg, 2000, 15).

In essence, according to (dplg, 2000, 21), the IDP is, 'conceived as a tool to assist municipalities in achieving their developmental mandates' and as a planning and implementation instrument to bring together the various functions and development objectives of municipalities. IDPs should involve widespread consultation with communities and other stakeholders and should link and co-ordinate all municipal development plans, municipal resources, capacity and

budgets and be compatible with national and provincial plan requirements (MSA, 2000).

Two recurring themes have been emphasised in the debate about the integrated planning process in South Africa; first, the importance of promoting grassroots involvement in a strongly 'democratic' planning process, and secondly, that the responsibilities of local authorities, as the tier of government which is closest to the people, should be significantly enhanced from their role as service providers during the apartheid era, to becoming key players in the development process.

LED and IDPs are seen as being inextricably linked. As the Department of Provincial and Local Government has commented, '...It is critical to ensure that the planning and implementation of a municipality's LED activities are carefully co-ordinated and initiated within the context of the municipal IDP' (DPLG, 2000, 29). The IDP provides a mechanism for co-ordinating LED strategies with other development strategies adopted by the municipality, so it is essential that LED planning should be closely linked to the IDP to avoid duplication. It is suggested that IDPs can assist in the promotion of socio-economic development in at least three ways:

- in helping to attract funds from other spheres of government, donor organisations and investors through defining and packaging attractive projects and programmes;
- in helping to create an environment that is conducive to private sector investment and the general promotion of LED; and
- by proposing direct interventions in the economy through, for example, providing incentives, developing economic infrastructure, and buying, developing and leasing/selling land, (dplg, 2000, 25).

There have been significant efforts recently led by the government to ensure a significant LED content in IDPs, and to check the 'economic literacy' of IDPs, and a national review has been conducted to assess the links.

White Paper on MSPs

The *White Paper on Municipal Service Partnerships* (2000) seeks to develop a strategy to ensure universal access to municipal services. It should be noted that the *White Paper on Municipal Service Partnerships* has to be examined in the context of provincial and local conditions, institutional arrangements and required capacity. In addition, every endeavour must be made to ensure that the main policy proposals are communicated to the main local government stakeholders and that the local citizenry have a reasonable understanding of municipal service partnerships. It is generally accepted that the White Paper will play a pivotal role in defining the formal framework for the management of municipal service partnerships.

Municipal Service Partnership Policy, 2002

The *White Paper on Local Government* recommends that municipalities look for innovative ways of providing and accelerating the delivery of municipal services. The Municipal Service Partnership (MSP) Policy aims to provide a clear framework within which to leverage and marshal the resources of public institutions, CBOS, NGOS, and the private sector towards meeting the country's overall development objectives. It is government's explicit expectations that all stakeholders involve and let the people have access to adequate municipal services and to contribute actively towards the economy of the country.

The MSP Policy has been derived from the principles of *batho pele* (people first). It actively promotes an ethos of participation by consumers and other stakeholders throughout the process of determining and implementing service delivery options. The MSP Policy also endorses universal access to basic services, the progressive improvement in service standards, and openness and transparency in the processes used for selecting service providers. Underlying this is the core principle that services should be affordable and delivered efficiently. Finally, the MSP Policy supports and encourages better information

flows, value for money, avenues for citizen's redress and, importantly, courtesy in service delivery.

Legislative Framework for LED and MSPs

While South Africa is facing daunting challenges for municipal service delivery, the *White Paper on Local Government*, 1998 indicates, achieving the Reconstruction and Development Programme (RDP) objectives within a reasonable time frame requires municipalities to look at innovative ways of providing municipal services. Partnerships between municipalities and the public sector, the private sector and community and non-governmental organisations (CBOs/NGOs) are a key option that municipalities should consider in their efforts to rectify infrastructure deficits and disparities. However, improving and expanding the delivery of municipal services through municipal service partnerships (MSPs) is new ground for South Africa. Developing the partnership concept into a practical and beneficial method for providing good quality and affordable services for all required government to review and consolidate its policies on these matters. The delivery of municipal services through MSPS requires a clear and stable policy environment for the municipalities, service providers and investors to enable mobilisation of resources to meet RDP objectives.

The Constitution of the Republic of South Africa (1996)

In South Africa the supreme law upon which all other laws are based is the national *Constitution*. The *Constitution* recognises local government as a distinctive sphere of government and mandates them to 'give priority to the basic needs of the community, and to promote the social and economic development of the community; and participate in national and provincial development programmes' (p.82). The *Constitution* makes provision for different categories of local government, which the *White Paper on Local Government* (1998) defines as:

- metropolitan councils, that is, the large conurbations with multiple business districts;
- municipal councils, that is non-metropolitan local councils; and
- district councils which oversee groups of local municipalities in urban and rural areas.

The *Constitution* obliges local government to 'encourage the involvement of communities and community organizations in the matters of local government'. These principles are reinforced in the *White Paper on Local Government, which* states that,

'government in South Africa is constituted as national, provincial and local spheres of government. These three spheres are distinctive, interdependent and interrelated. Local government is a sphere of government in its own right, and is no longer a function of national or provincial government. It is an integral component of the democratic state, 1998: 37).

This elevated status of local government and the associated participatory rights of citizens is a clear reflection on just how far policy and authority is devolving. The *Constitution* in its Schedules 4 and 5 also specifies the competences allocated to the 3 spheres of government.

The Act goes on to envisage a complete transformation of the local government system. In terms of the new *Constitution*, local government is a sphere of government in its own right and no longer a function of national or provincial government. Local government has also been given a distinctive status and role in building democracy and promoting socio-economic development.

In this manner, the constitution authorises all municipalities to ensure delivery of municipal services and engage in MSPs. There appears to be no limitations imposed by the Constitution or legislation on the duration of municipal contracts including MSP contracts.

The Municipal Systems Act (2000)

This Act specifies in more detail how local government is to work, including the principle of popular participation in local governance and local-level development. The *Municipal Systems Act (2000)* provides for 'the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of communities, and ensure universal access to essential services that are affordable to all'. The Act goes on to state that it describes the 'core processes or elements that are essential to realising a truly developmental local government system. These include participatory governance, integrated development planning, performance management and reporting, resource allocation and organisational change'.

This particular Act has defined implications for LED in terms of the operational procedures, powers and management systems, which are mechanisms to promote pro-poor development. Municipalities are specifically required to involve communities in the affairs of the municipality, to provide services in a financially and sustainable manner and to 'promote development in the municipality' section 16 (MSA, 32 of 2000).

In terms of service provision, municipalities are required to prioritise the basic needs of the community and to ensure that all residents have access to a minimum level of basic services. LED may be promoted through the provision of special tariffs for commercial and industrial users. A further LED-related provision is that municipalities may establish service utilities or acquire ownership of a company that renders a municipal-type service. The parallel *White Paper on Municipal Service Partnerships* details how municipalities can enter into partnership arrangements with the private, public, community and NGO sectors to improve service delivery in a specific area.

A key facet of the Act is the detail provided on the Government's commitment to the encouragement of participation (section 2.7.2). The Act spells out the same

powers and duties as detailed in the *Structures Act* and obligates municipalities to undertake developmentally orientated planning, requiring municipalities to develop 'Integrated Development Plans'. These plans should involve widespread consultation with communities and other stakeholders and should link and coordinate all municipal development plans, municipal resources, capacity and budgets and be compatible with national and provincial planning requirements. In terms of service provision, municipalities are required to prioritise the basic needs of the community and to ensure that all residents have access to a minimum level of basic services. The Act clearly provides the mandate for participatory governance in local government affairs and development matters. These principles clearly have critical pro-poor objectives.

As for MSPs, the *Local Government Municipal Systems Act*, 2000 (Act 32 of 2000) proposes that a municipality can provide a service through an external mechanism by entering into a service delivery agreement with another municipal entity, another municipality or an organ of state, including a water committee established in terms of the *Water Service Act*, 1997 (Act no. 108 of 1997). Any service provider should be a licensed service provider registered or recognised in terms of national legislation. These include a public sector entity, a community-based organisation or other non-governmental organisation legally competent to enter into such an agreement or any other institution, entity or person legally competent to operate a required activity.

The Act was established to provide for the core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all. It also defines the legal nature of a municipality as including the local community within the municipal area, working in partnership with the municipality's political and administrative structures. Partnerships between municipalities and the public sector, the private sector and community and non-governmental organisations

(CBOs/NGOs) are a key option that municipalities should consider in their efforts to rectify infrastructure deficits and disparities.

The *Municipal Systems Act, 2000* (Act 32 of 2000) provides for community participation, where citizens and local organizations will be working in partnership with the municipality to establish a simple and enabling framework for the core processes of planning, resource mobilisation for social and economic development in terms of realising the notion of developmental local government. This development challenge would empower the poor and ensure that municipalities together with its service partners put in place policies that take into account providing a framework for the provision of services, service delivery initiatives in order to progressively build local government into an efficient, frontline development agency capable of integrating the activities of all spheres of government and the public sector for the overall social and economic upliftment of communities in harmony with their local natural environment.

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The Municipal Structures Act (1998)

The second key Act is the *Municipal Structures Act* (1998), which, along with the *Systems Act* (below), extends and develops the provisions of the *Local Government Transition Act* of 1996. The Act provides for the three categories of municipality noted above, to operate within the newly demarcated areas and assigns them specific powers and duties. The duties and powers are based on the *Constitution* (1996) and are generally of a service type nature, but include the following, LED-type foci, namely: tourism, planning, public works, infrastructure development and markets. In undertaking such duties municipalities are expected to promote economic and social development in the area under their jurisdiction. The Act also allows for the participation of traditional leaders within local government administration in the areas in which they reside. It also mandates district councils to assist municipalities lying within the areas under their jurisdiction through integrated development planning, bulk infrastructural development, capacity development and the equitable distribution of resources.

The Development Facilitation Act (1995)

A key local government planning and development instrument is the *Development Facilitation Act*, 1995, which laid down the general principles governing land development throughout the country. Local governments were empowered to develop what were known as 'Land Development Objectives' (LDOs). These are for the sub-division and development of land in the urban and rural areas to promote the accelerated provision and development of land for residential, small-scale farming, economic uses or other needs, and to improve the security of tenure. This Act was deemed necessary in the light of the complex apartheid geography of the country and the need to redress development imbalances and accelerate development through the efficient utilisation of land.

Local Government Transition Act (1996)

Although the more recent legal provisions pertaining to the developmental role of local government have been based on the 1998 *White Paper on Local Government*, pre-1998 Acts have also helped to lay a key basis for this new role. *The Local Government Transition Act (1996)* assigned various powers and duties to local governments relating to service provision and required metropolitan councils specifically to promote integrated economic development, the equitable distribution of municipal resources and the delivery of services, with a developmental focus in mind. Metropolitan councils were also required to formulate and implement a metropolitan Integrated Development Plan, a provision subsequently extended to all local authorities incorporating land use, transport and infrastructure planning and the promotion of integrated economic development.

Though the Act has a focus on metropolitan areas, non-metropolitan councils have their powers and duties assigned on an individual basis, in terms of the 1993 *Constitution* and the original *Local Government Transition Act* of 1993.

The same act also has provision for MSPs. Accordingly *The Local Government Transition Act* (1996) assigned various powers and duties to local governments relating to service provision and required metropolitan councils specifically to promote integrated economic development, the equitable distribution of municipal resources and the delivery of services, with a developmental focus in mind. Metropolitan councils were also required to formulate and implement a metropolitan Integrated Development Plan, (a provision subsequently extended to all municipalities) incorporating various kinds of partnerships for land use, and the promotion of integrated economic development.

The Municipal Demarcation Act (1998)

Three Acts of Parliament pertaining to local government have developed from the 1996 *Constitution* and the 1998 *White Paper on Local Government*. The first, the *Local Government Municipal Demarcation Act* (1998), is concerned with determining new municipal boundaries throughout South Africa, a process undertaken between 1998 and 2000 which saw over 1000 local councils amalgamated into +/-284, and also ensured wall-to-wall local government across the country. This Act sought to eliminate small and ineffective local councils through combining neighbouring local authority areas under a single jurisdiction, and also assigned rural areas surrounding urban centres to the control of the latter.

This was undertaken to ensure economic and service efficiency, such that within municipal boundaries the municipality would be capable of fulfilling its constitutional obligations, including the promotion of social and economic development, integrated development, effective local governance and the incorporation of poorer communities under the jurisdiction of wealthier local authorities. Indirectly this Act lays the basis for local economic development through ensuring fairer spatial distribution of resources, and created more resourced, but also less accessible, local government structures.

Water Services Act, 1997

The Water Services Act, 1997 (Act 108 of 1997) requires those contracts for the provision of water services to be of limited duration without specifying any limits. Usually the length of the MSP contract is determined by the extent to which the service provider is required to invest its own funds in the expansion or upgrading of infrastructure and to recoup its investment over a number of years.

Conclusion

It all came with the democratic era to have an autonomous and independent local government that is responsible through its authority to manage its own administration. In this manner, it is every municipality's duty to ensure continued socio-economic development in their communities. It remains the duty of the municipality to establish mechanisms that are sustainable in order to realise its developmental mandate. To this end, municipalities should follow the national legislation and various policy guidelines that are established to guide them in their endeavour to ensure local economic development through democratising public management principles by means of municipal service partnerships.

The following chapter provides an overview of Local Economic Development, thus the South African local government perspective. In this will be explained the emergence and significance of LED together with the strategies followed to achieve a sustainable local economy.

CHAPTER 3

AN OVERVIEW OF LOCAL ECONOMIC DEVELOPMENT: THE SOUTH AFRICAN LOCAL GOVERNMENT PERSPECTIVE.

Introduction

Developmental approaches for local government are contained in the white paper as Integrated Development Planning, service delivery, local economic development and democratisation. Described as a locally-driven process designed to identify, harness and utilise resources to stimulate local economy and create new job opportunities, Local Economic Development has, in recent years, become a widely practised development strategy in local government and at community levels. However, it is still in an incipient phase. Over the past decade, local governments, community groups and non-governmental organisations have become significantly more active in locality-based economic development and in partnership with the private sector as well. Several municipalities have established comprehensive LED programmes including the establishment of LED units and the pursuit of a range of developmental strategies, whilst in parallel, an array of community and NGO initiatives are in place. There has been an increasing emphasis on the importance of the local government's role in the development of local economies since its emergence.

This chapter provides a detailed overview of Local Economic Development from the South African local government perspective. It explains the emergence of local economic development, its current status together with challenges, prospects and objectives LED is facing. Roles players are also identified as well as the context in which LED operates. Finally, LED strategies are explained including the institutional framework in which a municipality within its financial and administrative capacity must strive to ensure the provision of services to localities in a sustainable manner and to promote social and economic development.

The evaluation of the concept of Local Economic Development

Williams, posed the puzzling question as to what is it that we are studying when we study development? (2003, 1) Simply put, what constitutes a development problem? While it is common in the literature to come across continents, countries, regions and communities being described as developed, developing or under-developed, determining what exactly constitutes development or the lack of development continues to prove elusive.

According to Kesper, development is described as sustained economic growth accompanied by reducing levels of poverty, unemployment and inequality, (2004, 35). It should entail a growth process that requires the systematic reallocation of local factors of production from a low productivity, traditional technology, decreasing returns, mostly primary sector to high productivity, modern, increasing returns and highly industrial locality (Adelman, 1994, 4)

A concrete and universally acceptable definition of the concept 'development' remains quite elusive. In fact, various scholars and researchers seem to attach differing meanings to what its components should at least be. The Economic Development Administration, 2000 of the United States Department of Commerce just confirms to this assertion through its observations about the varying meanings of local economic development. It observed that:

- to most economists, economic development is an issue of more economic growth;
- to many business leaders, economic development simply involves the wise application of public policy that will increase competitiveness;
- to labour leaders, it is a vehicle for increasing wages, benefits, basic education and worker training; and
- to community-based leaders and professionals, economic development is a way to strengthen inner city and rural economies in order to reduce poverty and inequality.

Allen and Thomas while adopting the definition by Chambers (1997, 102) that describes development as 'good change' (2000, 14). Thus, it would sound fair to conclude that, though depending upon an individual's background and inclination, development could be defined differently. In this study, development is viewed as a continuous process that builds on itself; and involves changes at social, economic and individual citizen levels at one and the same time.

The evolving practice of LED

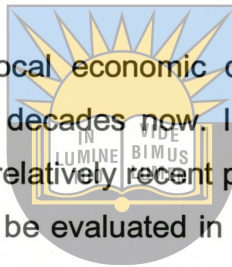
Thinking about local economies and the practice of local economic development is continually evolving, however Local Economic Development policy and practice has evolved significantly in the post-apartheid era in South Africa. The second democratic local government elections, which were held on 5 December 2000, marked the end of the 'transition phase of post-apartheid local government (1995-2000) and initiated a new era in municipal administration in the country. Municipalities are now expected and have been empowered to play an increasingly prominent role in Local Economic Development and employment creation.

During his reign as the President of the Republic of South Africa, Nelson Mandela, believed that by mobilising the resources of urban communities, the government and the private sector would make cities centres of opportunity for all South Africans, and be competitive within the world economy. The success of this would largely depend on the initiative taken by the municipality in partnership with the private sector, Non-governmental Organisations and Community-Based Organisations are expected to build their municipalities and promote local economic development (Mandela 1995, 5).

South Africa's remarkable political rebirth in the 1990s rightly captured world attention for the phenomenal process of reconciliation and nation-building which took place, especially on the aspects around the severity of the economic and employment crisis which the new South Africa has inherited, with high

unemployment. Inherited racially based inequalities still largely persist, whilst the country has not attracted the amount of foreign investment hoped for. Instead, it is estimated that nearly 1 million jobs were lost in the 1990s, as a result of poor economic performance, global competition and deindustrialisation, which affected industries across the board, gold mining in particular (Lester *et. al.*, 2000, 128). Within this context, a variety of employment generating strategies are being investigated and experimented with by the state and private organisations. One that has enjoyed considerable attention, though it has yet to really prove itself, in practice, is that of local economic development (Wakeford, 2000, 97).

The development strategy of local economic development has been widely practised elsewhere for several decades now. In the South, by contrast, in a formal sense, it appears to be a relatively recent phenomenon and one that in an era of economic crisis, needs to be evaluated in terms of its potential to help to address the challenges of poverty and unemployment and simultaneously to encourage growth and development.



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In the South, LED is gradually emerging as a result of reasons such as the considerations of the debt crisis, the effective inability of many states to intervene at the local level, imposed structural adjustment, massive currency devaluation and the series of natural and political shocks which continually shake the region Taylor & Mackenzie, (1992, 132). Reviews of the status of LED within local government areas in the South indicate that formal LED is still in its infancy and few local governments or other agencies can be said to be actively engaged in LED at present (Rogerson, 1999, 47 and Manuel, 1997, 67).

One should not, however, ignore the widespread reliance within societies in the South on indigenous technical knowledge, the importance of local coping or self-reliance strategies within villages and communities and the dependence on the informal sector by many millions, Binns (1994, 144). Though not LED in the strict Northern interpretation of the concept, in countries where the government lacks

the resources and staff to intervene effectively within local areas, communities, often with the support of non-governmental organisations have had to become more self-reliant in order to survive economically (Burkey 1993, 32, Binns and Nel, 1999, 398). Hence, in many ways, the emergence or re-emergence of the informal sector, communal farming and various forms of community survival can be seen as a rough South equivalent of LED.

South African LED shares similarities with both the Northern and the Southern African states, it is, therefore, inevitable that LED is experienced in forms ranging from urban entrepreneurialism to rural survival strategies. However, as evidence detailed above reveals, in many cases, LED is in its early conceptual stages. Government and local governments are often still in the first phases of policy development and application. Community initiatives, although often well established, do not receive significant policy support yet.

Reasons for the emergence of LED in South Africa

The new developmental expectation placed on local government came as a result of a series of interrelated contextual and policy considerations. South Africa arose from its liberation in 1994 and found itself trapped in the bondages of the apartheid regime, the pre-1994 government with its policies that could not fit well in a democratic society (the new South Africa), hence there was need to develop some ways to advance social, economic and political development in the country.

These considerations included the following:

Firstly, the country's unemployment crisis became a matter of serious concern. This situation necessitated a quest for innovative employment generation initiatives especially at local government level.

Secondly, local government got mandated in terms of the national constitution to 'promote social and economic development' marking a departure from the traditional service-oriented local government. The *Local Government White Paper*, 1998 then introduced the concept of developmental local government, which is committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and to improve quality of their lives.

Thirdly, the principle of devolution of power to local government and communities implied or reinforced popular participation in local affairs and development. In terms of the *Redistribution and Development Programme* development was not about the delivery of goods and services to a passive citizenry. It is about active involvement and empowerment of the citizens in matters that affect their lives in economical, social or political terms', (1994:8).

In terms of the Growth, Employment and Redistribution, government needed to pro-actively lay the basis for market-driven economic expansion and growth. This strategy detailed the role of government as to facilitate market expansion emphasising that local government has a key role in stimulating local economic development; and

Finally, the fact that local government's status developed through a commitment to the principle that it is not merely the lowest tier of government but rather a distinctive sphere occupying a unique and important position. Such principles are spelt out in the *Constitution of the Republic of South Africa, 1996* (Act 108 of 1996) and reinforced in the *White Paper on Local Government*, 1998 that government in South Africa is constituted as national, provincial and local spheres, which are distinctive, interdependent and interrelated. This meant that local government is a sphere of government on its own right and not some function of national or provincial government, hence it plays an integral role in economic development especially at local level.

Current status of LED IN South Africa

The concept of Local Economic Development is currently attracting considerable attention in government and policy circles in South Africa, Nel and Humphrys (1999, 277). Even though the concept is still relatively new in the country, it enjoys much wide acceptance and credibility. It is currently being initiated in variations which range from typical, Northern-style 'urban entrepreneurial' approaches pursued by the major cities to a host of community and NGO initiatives which share much in common with strategies pursued throughout the developing world. From a policy perspective, LED in South Africa finds accord with the post-*apartheid* government's pursuit of a neo-liberal economic strategy and a commitment to devolve powers of government to the local level and to support community-based endeavours (RDP, 1994 and GEAR, 1996).

LED is increasingly regarded as complementary to both nationally- and provincially-driven economic strategies, although there are associated developmental challenges facing South Africa.

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Challenges facing LED IN South Africa

Numerous endeavours are emerging in South Africa to curb the problems of poverty and inequality. Cities, towns and villages in South Africa face profound LED challenges that generally sprung from local economic crises of the apartheid era. At least one or more of the following challenges faces municipal officials and politicians in the context within which they need to mobilise skills and resources for economic development.

Firstly, balancing economic strategies to achieve both competitiveness and poverty eradication prove to be the greatest challenge. The success of a particular LED strategy depends on how much of the society's broader objectives are being realised, highlighting the fact that socio-environmental concerns should be consistent with the municipality's commitment to sustainable development. The *National Environmental Management Act*, 1998 affirms that the

“...integration of social, economic and environmental factors into planning, implementation and decision-making should ensure that development serves present and future generations”. The others are as follows:

- addressing the huge demand for service delivery, as well as severe affordability constraints;
- tapping into the resourcefulness and creativeness of local role-players can be problematic on its own;
- conceptual confusion is causing a conflict and confused aims with the main objectives of LED;
- lack of capacity and a special LED know-how in the country as a whole stands to be a major challenge because most of the local skilled workers are leaving the country for better opportunities in foreign lands, and in some instances LED is championed by non-economic political administrative system;
- financially, most municipalities lack access to available and sufficient funding, especially rural municipalities;
- generally there is a lack of political will, poor communication and civic education on LED accompanied by lack of citizen participation and civil society involvement in LED initiatives; and
- insufficient basic infrastructural and huge backlogs in service delivery challenges the whole LED concept, after all, these constitute the general requirements of LED (Reddy *et. al.*, 2003, 176).

Moreover, the context in which municipalities mobilise to meet these challenges is particularly demanding and made complex by South Africa's political transition to democracy, the residual effects of apartheid geography, increasing expectations for municipal service delivery capacity, a rigorous fiscal policy, lower than expected macro-economic growth, rising unemployment and the demands of globalisation (*LED Draft Policy Document, August 2002, 6*). However, it is incumbent upon municipalities to devise strategies to enhance

LED. This could help local government in identifying the goals and realising the prospects of LED.

The prospects and objectives of LED

The key consideration in locally based economic development is the emphasis on "...endogenous development policies using the potential of local human, institutional and physical resources" (Blakely, 1994, 49-50). In the South African context, LED is seen as important because it is regarded as a mechanism for achieving the following:

- the creation of jobs and new employment opportunities to alleviate poverty;
- increasing income levels, thereby enabling people to pay for services;
- broadening the tax and revenue base of municipalities;
- improving municipal services and facilities;
- the development of human resources;
- building new institutions for sustainable development; and
- linking the developed and undeveloped areas (International Republican Institute and National Business Initiative, 1998: 3)

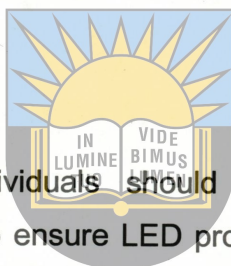
At the end of the day, it will empower disadvantaged communities economically, impact positively on the redistribution process in the municipal area in question, most importantly, improve the quality of life of local citizenry. According to Reddy, *et.al*, LED is a process requiring, *inter alia*, the formation of new institutions, the development of alternative industries, the improvement of the capacity of existing employers to improve quality, the identification of new markets, the transfer of knowledge, and the nurturing of new companies and enterprises. In order to facilitate these activities, local government and/or community groups must take on an initiating role (Gilloth & Meier, 1989, 17).

Role players on Local Economic Development

Local Economic Development should be a result of combined effort from various groups to ensure utilisation of local resources for the purposes of employment creation to alleviate poverty. They are seen below as the public sector, private, CBOs, NGOs and international development institutions.

Public Sector

Local government remains the core role-player in implementing LED, municipalities' efforts include the promotion and facilitation of local economic development programmes.



Private sector

Private organisations and individuals should work hand and glove with municipalities in a partnership to ensure LED projects are a success. From the support they get from municipalities, they are able to operate effectively.

Community-based Organisations

Organised community organizations are also a major stake holder in LED execution for the Constitution and the Municipal Systems Act demand for their participation in such matters.

Non-governmental Organisations

These organisations are non-profit making but they operate in association with municipalities and local communities to ensure service delivery, hence, LED.

International development institutions

Examples such as the World Bank, New Partnership for Africa's Development (NEPAD) are such international and regional organisations that fund and promote the development and advancement of local economies.

The LED context

There are various contexts within which the development and implementation of LED takes place. These can be named as, the global context, regional or national and provincial or local contexts.

The Global Context

The national economy does not exist in isolation. This implies that South Africa's economic strength is determined by international forces and these forces need to be taken into consideration when national policies are formulated. At the international level the drivers of LED include economic, technological, political and regulatory factors. In a period characterized by globalization and the weakening of state control in many countries, individual localities are often pursuing locally determined and appropriate development strategies. This trend has occurred in response to global economic, technological and political changes, Nel, (1999, 4).


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The Regional and National Context

At the national level, it is important to note the influence of the following:

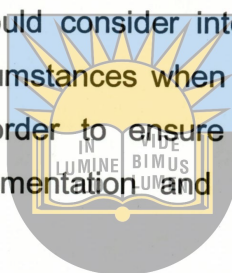
- macro-economic and political stability;
- widespread privatisation of whole industries and the decentralization of government services;
- increasing democratisation that brings increasing pressures and expectations from individuals and groups;
- national industrial and economic policies;
- industrial incentive schemes; and
- taxation and regulatory reform (www.worldbank.org).

However, the economic mandate has been condensed to lower spheres of government because as the government closest to the people it possesses the knowledge and experience of local environments, socially, economically and otherwise.

Provincial and Local Context

According to the LED Policy Paper, 2002 (iv) (in the Executive summary), the Department of Provincial and Local Government (DPLG) has a responsibility to ensure that the state system embodies good governance. This entails several mandates, which include, *inter alia*, ensuring that provinces and municipalities comply with the Constitution, legislation and regulations, and ensuring that there exists a strong developmental role for civil society, hence LED amplifies and cuts across these roles.

To this end, the provinces should consider international trends and national policy, as well as the local circumstances when formulating LED strategies for their respective provinces in order to ensure consistency in the planning, development, evaluation, implementation and financing of Local Economic Development.



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Led Strategies

The LED Policy paper identifies six strategic interventions that municipalities can adopt in order to achieve the developmental outcomes of poverty reduction, job creation and the redistribution of incomes, (2002, 6). However, more strategies have been advocated for by various other schools of thought. Among these, the most common ones are outlined in the discussion that follows.

The development and maintenance of services and infrastructure

The development and maintenance of services and infrastructure is the key component of municipal service delivery, and in most cases it addresses the past imbalances by rendering basic services to the people. If done properly so as to maximise economic linkages this can result in the provision of reliable, cost-effective municipal service delivery. This can also boost business confidence within a municipality, for example, section 96 (i) (a) of the *Municipal Systems Act*, 2000 (Act 32 of 2000) specifies the need for a municipal council to choose a service delivery mechanism that will "... most effectively and rapidly extend

municipal services to unserved or under-served residents and communities in the municipality ... with the best quality service, at the lowest overall cost to the municipality, residents and consumers...”.

The impact of infrastructure and service provision can be both short-term and long-term. It can create job opportunities for the poor and can stimulate economic activity that results in more permanent jobs (Reddy *et. al.*, 2003, 180-181). This is known as the engine of economic development, as there would be no stimulation of the economy without water, electricity, sanitation, roads and other key facilities, such as, health, recreation, housing settlements and education facilities.



Retention and Expansion of Existing Businesses.

Municipalities should give attention to retaining and expanding existing businesses of a municipality to primarily assist local businesses to improve their productivity, increase market share and graduate to higher value-added levels in the production chain (*Local Economic Development Policy Paper*, 2002:8). In terms of retention, the municipality should devise measures which would ensure firms within the area do not relocate, but rather stay and expand. An advantage of retaining businesses within a municipal area is that it also helps to attract new firms to do business in that municipal area (Reddy *et. al.*, 2003, 181).

This is sometimes referred to as the promotion of small, medium and macro enterprises (SMMEs). The support that municipalities should provide in this respect includes the development of business skills, the provision of business infrastructure and offering technical support through business advice centres.

SMME Development

Regarded as a key strategy to the promotion of LED is the development of SMMEs, in the sense that, they generate jobs and empower historically disadvantaged individuals. This is currently the sector that has shown great employment potential in South Africa over the past few years. Municipalities are expected to provide professional advice and assistance to small businesses in the areas of management, marketing, accounting, financing, locating resources and problem solving, Blakley (1994, 203).

However, in most cases, it does not happen like that. This is so because usually it is these municipalities that lack proper management approaches. In terms of accounting and financing, their systems are riddled with corruption. These municipalities are actually the ones that need professional advice in terms of locating resources and solving problems due to lack of expertise.

The importance of SMMEs in South Africa cannot be understated. This sector participates in the national economy itself through stimulating economic growth by creating jobs, enhancing poverty alleviation and promoting social stability, thus helping to redistribute wealth throughout the economy (Government Communication and Information System, 2002, 22).

In the *White Paper on National Strategy for Development and Promotion of Small Business in South Africa*, the government assigns the SMME sector a key role in South Africa's socio-economic transition. In particular, SMMEs are seen as a vehicle to:

- address the problem of high unemployment in South Africa as they have the capacity to create employment;
- promote domestic competition by creating market places for localities in which they can grow until they identify a need for expansion in response to demand changes, and to be internationally competitive because of their flexibility;

- redress the inequalities inherited from the apartheid period - in terms of patterns of economic ownership and restricted career opportunities for black employees;
- promote and ensure black economic empowerment because the majority of SMMEs are still owned or controlled by those members of society who were privileged in South Africa's past; and
- SMME's play a crucial role in peoples' efforts to meet basic their needs in the absence of social support systems during the restructuring processes – which refers in particular to the micro-enterprise segment in South Africa and, especially, survivalist activities characterised by low entry barriers for inexperienced job seekers.

The small business sector in South Africa needs financial support so that they can significantly help to create employment opportunities to address the high levels of unemployment.



Community-based Economic Development.

As mandated in the RDP, support for institutions such as community development trusts, community-controlled enterprises or development co-operations is a key feature of this approach. In other words, this is a concept based on developing community self-reliance. The central objective of this is the alleviation of poverty and improving the capabilities of the disadvantaged in particular, and the creation of sustainable livelihoods for communities in question (Department of Provincial and Local Government, 2003, 39).

According to Reddy *et. al.*, community-based economic development focuses on combining employment, training, mentoring and enterprise development, to enhance access to, and creation of jobs, resulting in self-sufficiency for disadvantaged communities, (2003, 182),.

This strategy should include the training of enterprise owners through the Department of Labour, small municipal financial support, or municipalities leveraging external funding to support income generating projects. The beneficiaries should be trained to manage funds and be able to create jobs for themselves. This, according to the LED Policy, is called a pro-poor intervention. If this is not well coordinated and managed properly, it may lose direction and the whole functioning of the LED. For this strategy to make a meaningful impact, it must be combined with other relevant strategies, such as creating market opportunities for small projects which could help sustain them.

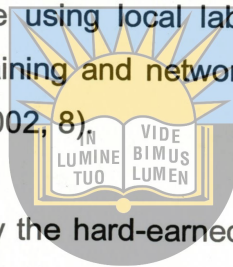
Industrial Recruitment and Place Marketing.

Attracting new industries to the municipality together with promoting and advertising a local area for people, business and industries to see the municipal area as a desirable place to visit, stay and invest explains this strategy. Factories and individuals consider a number of things before making such a decision, these include, *inter alia*, the cost of living and that of production, proximity to local markets for products, situational location of suppliers, accessibility of research and development institutions, access to transport networks, and most importantly, whether the municipality offers good infrastructure and services. The availability of recreational facilities can influence such decisions, together with the quality of schools, educare centres, and social risks, such as violence and crime and health facilities (Reddy, *et. al.*, 2003: 182).

This places a significant role on municipalities and a considerable amount of pressure at the same time, for they have to create such favourable environments. This goes back to the issue of retaining existing business in the municipal area for this may attract new entrants.

Plugging the “leaks” in the Local Economy

Generally, leaks are inevitable in every local economy because of lack or failure to make money circulate for as long as possible within a local economy. This always happens where, for instance, industries from small towns become dependant on large towns for their supplies and markets. The strategy is to ‘plug the leaks’ at least by identifying and locating the leaks, and then develop means to address them (Reddy, *et. al.*, 2003, 182). It sometimes becomes crucial to stop the out-flow of money from poor areas by encouraging people to buy locally, supporting and building periodic markets, funding special events and local festivals, providing infrastructure using local labour and locally manufactured material promoting employee training and networking enterprises of all sizes in the locality (LED Policy Paper, 2002, 8).



LED could be promoted if locally the hard-earned cash could be spent on local markets rather than to advanced and bigger industrial towns.

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Human Capital Development.

To ensure that LED brings social and economic benefits often requires investing in human capital through skills development, education and health. The skilling of local people is of great significance because it can promote higher living wages. There are explicit linkages between promotion of living wages, human capital development and economic development, since a well paid, healthy and well educated workforce would be more productive than otherwise (LED policy paper, 2002, 7 and Reddy, *et. al.*, 2003, 182).

This implies that the strategy focuses on human capital development since skilling the poor in the communities can increase their chances and access to participation in the local economy.

Linking of Profitable Growth to Redistributive Development

In the event of adopting this strategy as a tool for Local Economic Development, municipalities must enforce or make it a pre-requisite that development planning or zoning permission in profitable geographical areas is linked to a commitment to invest in impoverished neighbourhoods. For example, if there is a financial institution opening a branch in a wealthier area, that particular institution should also consider doing so in a low-income neighbourhood and also invest certain proportions of their turnovers in local SMMEs ((*Local Economic Development Policy Paper*, 2002, 7).

It should be noted that all these strategies can be combined in different ways to suit local conditions since the adoption of a strategy can be influenced by one, if not all of the following:

- the local context, which includes geographical or physical circumstances;
- the local economy and employment structure;
- the local population and labour market;
- possibilities for social partnerships; and
- social aspects, such as, community safety and HIV/AIDS status.

Municipalities do not necessarily have to focus on a single strategy, but can also adopt a combination of these.

The roles of municipalities in LED

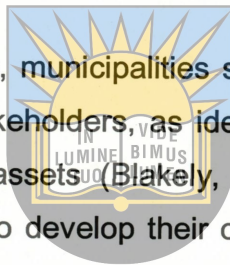
In an attempt to carry out its developmental mandate, as enshrined in the *White Paper on Local Government*, 1998, and to find sustainable ways to meet the social, economic and material needs of the community and improve the quality of lives of local communities, municipalities have to ensure that Local Economic Development strategies and programmes address their desired goals and objectives by maintaining their role as outlined below.

Policy maker

This implies that small businesses should have greater access to the procurement process. The municipality should ensure that regulations and by-laws do not become barriers to local growth and investment and should facilitate the capacity building process locally, (International Republican Institute and National Business Initiative, 1998, 4). Instead, all municipal by-laws should be consistent with the national policies and guidelines which authorises local communities as individuals or organisations to have the right to properly.

Entrepreneur/developer

As owners of land and buildings, municipalities should work hand in hand with the private sector and other stakeholders, as identified above, in exploring the commercial potential of these assets (Blakely, 1994, 70). In the event that localities lack financial strength to develop their own businesses, it remains the duty of the municipality to develop and maintain the infrastructure that promote social and economic development.



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Promoter

Municipalities can promote LED by projecting a positive image of the municipality. Its officials should meet potential investors and trade delegations to market locality (International Republican Institute and National Business Initiative, 1998 in Reddy, *et. al.*, 2003, 179). At the end of the day, the municipality should create good relationships with the external investors to attract them and promote the local economy.

Catalyst/Stimulator

Municipalities can stimulate business creation or expansion by taking specific action that induces firms to enter or remain in a particular municipal area. This could be the compilation of brochures on local investment opportunities, promoting a particular tourism theme or activity (Blakely, 1994, 72). Building and

providing premises at low rents to SMMEs could be a way of stimulating the local potential into viable business.

Coordinator

Local government can also act as a coordinator to establish policy or propose strategies for development. Municipalities should also provide some leadership in the planning and coordination of services within on their area through collecting and evaluating economic information to evolve economic objectives, (Blakely, 1994, 70-71). This information should be transcended to the localities so that they can use for the development of their own economies and social life.

Lobbyist

Local government associations can lobby national and provincial government on particular policies and programmes that benefit their localities, (Reddy, *et. al.*, 2003, 179). The main duty of the municipality in this regard is to access support on behalf of its citizens from other spheres or organs of state, in cases where local people need to be represented by their municipal officials and political appointees. This places local government at the centre of the country's socio-economic reconstruction and development, and local economic development in particular.

Institutional framework for LED

According to Section 152 of the *Constitution of the Republic of South Africa*, 1996, a municipality must strive within its financial and administrative capacity to achieve the following objectives for local government:

- to ensure the provision of services to economies in a sustainable manner;
- to promote social and economic development; and
- to encourage the involvement of companies and community organizations in the matters of local government.

Most municipalities in the country have their organisational structures in place, with the LED Unit that has few or no human resources to run with it. Taking this

into consideration, it could be concluded that such municipalities are not in a position to promote, facilitate and co-ordinate local economic development within their respective areas of jurisdiction. Hence a broader institutional arrangement for LED is required to carry out the development initiatives identified for the district. In order for municipalities to plan and implement LED strategies successfully and meet their developmental goals, proper institutional arrangements must be set up.

The Department of Provincial and Local Government, *LED Manual: Institutional Arrangements* promote the establishment of municipal LED Units at district and local municipality level, (1999:5). These Units will address the capacity constraints at local level, reflect local government priorities and seek to incorporate them into the Integrated Development Plan (IDP). In fact, setting such a Unit must be part of the IDP process. The structure and the shape of the LED institution is influenced by specific conditions in the community and the envisaged roles of the institution. The *Local Economic Development Policy Document*, 2000 states that LED institutions are needed at both programme and project levels.

Programme level

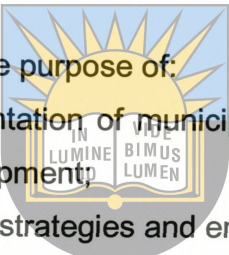
At programme-level, institutions are required to take responsibility of co-ordination and management of the District LED programme as a whole and for the identification of projects and mobilisation of resources for the planning and implementation of LED. There are two kinds of programme-level institutions, namely; municipal- based LED Institution and community-based LED institutions

The Department of Provincial and Local Government, (*LED Manual: Institutional Arrangements*, 1999, 5) promotes the establishment of municipal LED Units at District and Local Municipality level. These Units are meant to address the capacity constraints at local level, reflect local government priorities and seek to

incorporate them into their Integrated Development Plans. In fact, setting such a Unit must be part of the IDP process. LED units are based on the assumption that:

- a municipality recognises that it is politically accountable for LED; (Councillors are therefore the key role players in this process)
- LED strategies and projects will have to be aligned with the IDP;
- the IDP will highlight the need for co-ordination of municipal activities to meet LED objectives; and
- budget and administrative support will be identified for LED.

The LED Unit is established for the purpose of:

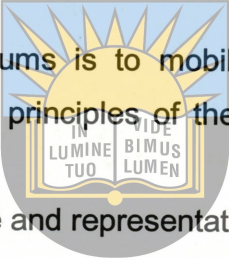
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- co-ordinating the implementation of municipal activities in a manner that optimizes economic development;
 - developing LED policy and strategies and ensure alignment with the IDP;
 - managing the implementation of LED strategies;
 - managing and monitoring LED programme and projects;
 - co-ordinating the municipality's activities with those of other stakeholders, and other government spheres; and
 - establish partnerships and leverage funding and manage the LED Budget.

The LED Unit needs to be represented in the organogram of the Municipality, in order to implement the strategies and projects ascribed to it. The Unit can be a separate department or part of another strategic department. The critical issue is for the Unit to have the necessary resources and influence in order to function effectively. Its structure would depend on capacity and budgetary constraints of the municipality. The structure is also influenced by the number of skills levels required of staff, the budget available to it and the existence of the required facilities.

Community-based LED Institutions

In addition to establishing units within the municipality, it is important to have an institutional arrangement that allows for participation and input at a community level. This arrangement can take the form of partnerships (Public-public/public-private partnerships) or forums. It is questionable whether informal arrangements are truly effective. For this reason, it is often better to have formal co-ordinating structures such as LED Forums. The LED Forum is an advisory body that is required to interact with a full range of stakeholders represented in the community, with regards to LED.

The main objective of LED Forums is to mobilise stakeholders around one common vision. The key guiding principles of the forums can be described as follows:

- 
- the forum must be inclusive and representative;
 - it must be participatory;
 - it must have a clear role so as to complement the LED Unit;
 - it must receive feedback from project-level committees; and
 - it must drive a common vision.

It is also important to note that there is no standard blueprint for the structure of the LED Forum. It only depends on the availability of dedicated LED champions in the area.

Project-level Institutions

Once programme-level LED institutions have been established, they will be responsible for selecting the appropriate institutional arrangement for the implementation of specific LED project. Because of the wide range of possible projects, it is impossible to provide details of specific institutional arrangements for each project. Institutions chosen to manage and implement LED projects should:

- match LED objectives and strategies of the project;
- be capable of producing results;

- have sufficient resources and capacity to implement the project efficiently and effectively;
- be able to mobilise sufficient finance;
- be able to minimize potential of liability of the LED programme institution, the municipality and other stakeholders if the project experience problems; and
- monitor the progress of the project.

Processes involved in LED

LED should be a locally driven-process to be able to harness and utilise local resources to stimulate the economy and create new job opportunities for the local citizenry. It is not a once-off activity, but should be included in the Integrated Development Plans of the municipality so that:

- economic strategies of a municipality are part of an integrated plan for taking the development challenges of the municipality;
- municipal resources are allocated to these strategies, namely, human and financial resources;
- the outputs and impact of LED strategies and projects are monitored as part of the performance management system of the municipality to ensure success; and
- the role of the municipality within economic development is clearly defined within each strategy (Reddy, *et. al.*,2003, 185).

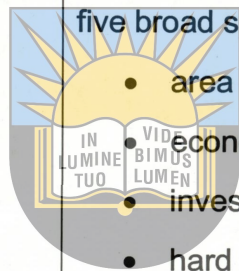
It is important for the LED Unit in a municipality to integrate its plans and strategies with those of the whole municipality so that they can enjoy the fruits of development mandated to the municipalities, and, at the same time concrete projects can then be formulated to assist in implementing the chosen strategies.

	<p>Establishing a steering committee</p>	<p>important and that some will be able to participate more than others</p> <p>The Steering Committee includes key stakeholders from all sectors; public or private. The municipality will usually provide institutional support to the committee which provides them with a degree of control that may be needed in the early days of establishing the LED strategy and partnerships.</p>
	<p>Establishment of LED process overseers</p>	<p>This group should include people from across various departments with some interest or professional, technical, political or financial responsibility for matters affected by the LED strategy. Membership should be at both elected member and at officer levels (Davids, <i>et. al.</i>, 2005, 50-51 and www.worldbank.org).</p>



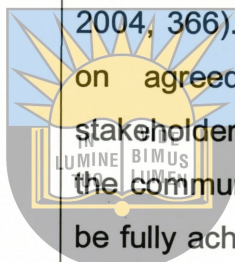
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<p>Stage 2</p>	<p>Conducting the local economy assessment</p> <p>LED information</p> <p>Information analysis</p>	<p>This involves obtaining and analysing information on the economic status of the municipality.</p> <p>Conducting a local economy assessment involves collecting strategically important information and then analysing it strategically, this information is needed in five broad subject areas:</p> <ul style="list-style-type: none"> • area demographics • economic characteristics • investment climate information • hard Infrastructure information • community services; and • regional and National information (Blakely, 1994, 84-85). <p>The information collected provides the basis for an assessment of the community's economic situation. This should point to the projects and programs that are required and possible in terms of their strengths, weaknesses, opportunities and threats. (www.worldbank.co.za).</p>
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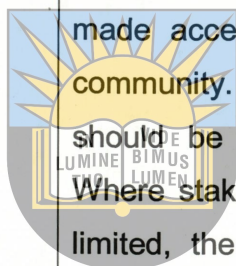
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Stage 3	LED Strategy Development	After information analysis of the municipal economic situation, a strategy can be developed, however, this follows a stipulated procedure.
	Creating a vision	LED vision is determined in the manner which is appropriate to the community and its needs and which also promote sustainability and growth (Robinson, <i>et. al.</i> , 2004, 366). A vision should be developed on agreed description depending on stakeholders' preferred economic future for the community. Even if the vision may not be fully achievable but it is on the basis of the vision that goals, objectives, programs and project plans will be developed.
	Developing goals	Goals point more specifically to the proposed outcomes of the community. Goals are much more descriptive and concrete than a vision statement and should be directly related to the findings from the local economy assessment.
	Developing objectives	Objectives are even more specific. They are time bound and measurable. The aim is to leverage strengths, overcome weaknesses, exploit opportunities and deal with threats identified during the local economy assessment.



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	<p>Developing strategies to achieve objectives</p>	<p>These are specific actions the community will take to achieve the vision, goals and objectives. Attention should be given to identifying a broad base of projects. These projects should include agreed actions for all stakeholders.</p>
	<p>Strategy documentation</p>	<p>The strategy is then documented and made accessible to all members of the community. Feedback on the LED strategy should be encouraged and considered. Where stakeholder participation has been limited, the strategy document could be developed in draft format and used as the basis for further consultation before finalisation of the LED strategy (www.worldbank.org).</p>



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<p>Stage 4</p>	<p>Strategy implementation</p>	<p>Strategy implementation is driven by action plans. Most LED strategies are delivered through public/private sector partnerships that are strongly driven or led by the local authority. The private sector is often keen to manage initiatives aimed at improving the vitality and viability of town centers or to be involved with business development initiatives. Community groups may seek to lead initiatives to improve the health or housing conditions of a target group of disadvantaged individuals (Robinson, <i>et. al.</i>, 2004, 369, www.worldbank.org).</p>
<p>Stage 5</p>	<p>Reviewing the LED</p>	<p>Reviewing is normally done on an annual basis, usually in conjunction with the local authority's financial planning cycle. Both the municipality and the steering committee should be involved in the review process to determine whether the strategies should be changed or not. It is important to note that there considerable time, effort, and capital is invested in LED, therefore strategy review is of utmost importance (Nel 1999: 52).</p>

SOURCE, L Nyama, 2007

LED strategies can now be put to practice provided funds are available to accommodate the desired outcome and output from particular strategies.

Financing LED

The problem facing municipalities is access to financial resources, especially when it comes to the funding of LED. This usually happens if an LED strategy is not integrated or included in the IDP and municipal plans. Moreover, there could be a lack of coordination among government departments because some LED programmes are financed through the municipality itself, whereas, others target NGOs or business directly through Black Economic Empowerment strategies.

A number of processes are underway to overcome these challenges, such as including LED as part of IDPs which aligns LED strategies with the municipal plans (Reddy, *et. al.*, 2003, 187). The LED strategy should have a budget. In selecting particular programmes and projects, care should be taken to ensure that funds are available for the entire length of each project as projects are likely to span several financial years. Forward or exit strategies should also be developed.

The Department of Local Government's Consolidated Municipal Infrastructure Programme (CMIP) fund offers resources to provide bulk, connector and internal services, as well as community services for the poor. Municipalities can also apply for funding from the Development Bank of Southern Africa (DBSA) or try other financial institutions

Conclusion

The country's unemployment and poverty crisis has necessitated the search for innovative employment generating strategies, including those at the local government level. Local government is now legally mandated in terms of the *Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)*, to 'promote social and economic development'. This constitutional principle has been refined

and is outlined in-depth in a whole chapter in the *Local Government White Paper* (1998), which formally introduced the concept of 'developmental local government'. LED in this chapter has been taken to include all activities which local governments and other stakeholders at the local level engage in to enhance growth, incomes and livelihoods, specifically those of poor people. These are not restricted to local government activities, but focus on local government-initiated activities, which may be carried out by a variety of actors. LED might be a new development strategy which is currently being experimented within South Africa but significant progress has been made in the larger cities. However, in most parts of the country local governments are dealing with an 'unfunded mandate' which they lack the power, resources and capacity to implement.

The next chapter deals with Municipal Service Partnerships, determining if their use as a tool for Local Economic Development is effective.

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CHAPTER 4

MUNICIPAL SERVICE PARTNERSHIPS: AN INSTRUMENT FOR LOCAL ECONOMIC DEVELOPMENT.

Introduction

Local economic development in particular has provided a fertile ground for building coalitions across traditional divisions, and encouraging partnerships. After all, local municipalities are not the only agents promoting LED within the local communities. However, the recognition of local government as a distinct and autonomous sphere of government in the Republic of South Africa significantly mandates them to give priority to the basic needs of the community, and to promote social and economic development. This presents key roles of municipalities being developmental in nature. Local government has been acknowledged as an important foundation in ensuring sustainable development of local economies. The government maintains that the central responsibility of municipalities is to find sustainable ways to economic, efficient and effective service delivery.

This has resulted in the growing acceptance of the importance of local government co-operating with various agents, through public-public, public-private partnerships, as well as with community-based and non-governmental organizations. This is ideally because many municipalities struggle to marshal the necessary resources and expertise to undertake practical initiatives, due to mainly, lack of human resources, as well as capacity and general know-how of LED. These partnerships entail practical and technical diffusion of best practices to local economic development and other objects of municipalities, among respective stakeholders (partners).

The main purposes of the MSPs include, the provision municipal services, the sharing of the risks, enhancing quality of services, maintenance of existing levels of service, increased revenue, improved implementations, economies of scale

and increased flexibility in responding to the needs of citizens. With the appropriate planning and support, the MSP can be a valuable mechanism in ensuring that municipalities provide sustainable services to their communities, which create safe and healthy environments, and in turn contribute to the social and economic upliftment of the area.

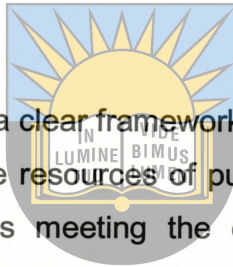
This chapter will identify and explain various forms of Municipal Service Partnerships and demonstrate their relationship to Local Economic Development. In essence public-public partnerships and public-private partnerships will be at the centre of this discussion. However, this will not side line community-based organisations and non-governmental organisations because it remains a mandate enshrined in both the *Constitution of the Republic of South Africa, 1996* (Act 108 of 1996) and the *White Paper on Local Government, 1998* that local government should involve citizens in the execution of public duties. Furthermore, the *Municipal Systems Act, 2000* (Act 32 of 2000) demands local government to ensure and find mechanisms to promote community participation in matters of governance.

The significance of MSPs

This section seeks to demonstrate the importance and objectives of Municipal Service Partnerships in local economic development. To start with, MSPs can be described as a way of democratising public management so that localities would be involved in the processes and activities of local government, which directly affect their lives. According to Bekker, community participation is essential because it enables the local government to know community needs from the grassroots and also to get a profound understanding of the real experiences communities are facing, (1999, 39). To add on to this, the *White Paper on Municipal Service Partnerships, 2000* lists the following:

- it is the explicit expectation by government that all stakeholders in this country aim that all the people have access to adequate municipal services and to contribute actively towards the economy of the country;

- partnership actively promotes an ethos of participation by consumers and other stakeholders throughout the process of determining and implementing service delivery options;
- MSPs also endorse the universal access to basic services, the progressive improvement in service standards, and openness and transparency in the processes used for selecting service providers; and
- the MSPs support and encourage better information flows, value for money, avenues for citizen's redress and, importantly, courtesy in service delivery.



Generally, MSPs aim to provide a clear framework within which local government should leverage and marshal the resources of public institutions, CBOs, NGOs, and the private sector, towards meeting the country's overall development objectives. According to the *White Paper on Local Government*, 1998 MSPs are established to meet developmental goals of municipalities. However, this can only be achieved if these partnerships are established on sound principles.

Principles guiding the MSPs

In choosing the delivery options for their areas, municipalities should be guided by the following principles, enshrined in the *White Paper on Local Government*, 1998:

Accessibility of Services

Municipalities must ensure that all citizens - regardless of race, gender or sexual orientation - have access to at least a minimum level of services. Imbalances in access to services must be addressed through the development of new infrastructure, and the rehabilitation and upgrading of existing infrastructure. The Consolidated Municipal Infrastructure Programme has been established to

provide capital grants to assist municipalities in funding bulk and connector infrastructure for low-income households and so extend access to services.

Accessibility is not only about making services available, but also about making services easy and convenient to use. Municipalities should particularly aim to ensure that people with disabilities are able to access municipal services and amenities.

Affordability of Services.

Accessibility is closely linked to affordability. Even when service infrastructure is in place, services will remain beyond the reach of many unless the municipality makes the affordable. Municipalities can ensure affordability through:

- setting tariffs which balance the economic viability of continued service provision and the ability of the poor to access services;
- determining appropriate service levels (Services level which are too high may be economically unsustainable and jeopardise continued service provision; however, inadequate service levels may perpetuate stark spatial divisions between low, middle or high income users, particularly in urban areas, and adversely impact on the socio-economic objectives of the Council; and
- cross-subsidisation (between high and low-income users and commercial and residential users) within and between services.

Quality of Products and Services

The quality of services is difficult to define, but includes attributes such as suitability for purpose, timeliness, convenience, safety, continuity and responsiveness to service-users. It also, includes a professional and respectful relationship between service-providers and service-users.

Accountability of Services

Whichever delivery mechanism is adopted, municipal councils remain accountable for ensuring the provision of quality services which are affordable and accessible.

Integrated Development and Services.

Municipalities should adopt an integrated approach to planning and ensuring the provision of municipal services. This means taking into account the economic and social impacts of service provision in relation to municipal policy objectives such as poverty eradication, spatial integration and job creation through public works.



Whole-life Costing

MSP projects, especially those that require private sector finance, must be viewed on a whole life-cost basis. This is because the initial investment will be recouped over the whole life of the project, along with all the operating costs. The impact of this is that in a 30-year water and sewerage contract, profits are only made in the last five years of the project.

Sustainability of Services.

Ongoing service provision depends on financial and organisation systems which support sustainability. Sustainability includes both financial viability and the environmentally-sound and socially-just use of resources.

Innovation and Flexibility.

A major advantage of MSPs is the extent to which they encouraged innovation and flexibility. This occurs firstly because the private sector partner often views the service in question from a completely different and commercial point of view to that of the municipality. Secondly, an innovative structure is often required in

order to make the partnership viable for both parties. Thirdly, both parties usually have to be flexible during negotiations, especially when the different risks are shared.

Value-for-money.

Value in the public sector is both a matter of the cost of inputs, and of the quality and value of the outputs. The above principles require that the best possible use is made of public resources to ensure universal access to affordable and sustainable services.

Specificification of outputs/outcomes not inputs.

One of the main differences between an MSP and a normal out-sourced service or infrastructure contract is the specification of outputs and outcomes, rather than inputs. When a municipality wants a service or some infrastructure, it specifies, usually in a detailed tender document, exactly what is required, but the specification is usually framed in terms of the inputs.

For example, on the one hand, an outsourced cleaning contract will specify exactly what kind of cleaning must be done, how many times a week, using how many people, at what time of the day and so on. An MSP tender, on the other hand, merely specifies the outcome required by the contractor.

Ensuring and Promoting Competitiveness of Local Commerce and Industry

The job-generating and competitive nature of commerce and industry must not be adversely affected by higher rates and service charges on industry and commerce in order to subsidise domestic users. Greater transparency is required to ensure that investors are aware of the full costs of doing business in a local area.

Identification and Transfer of Risks

The major advantage that a municipality can derive from an MSP is the transfer of some risk to the private sector. It is important that the feasibility study of an MSP identifies the risks involved, and that the municipality is equipped to negotiate the transfer of risks with the service provider prior to the contract being signed.

Promoting Democracy

Local government administration must also promote the democratic values and principles enshrined in the Constitution, together with the principles provided by Section 195(1).



Approaches to partnerships

Contractual arrangements for municipal service delivery may be in collaboration or co-operation form, where:

- collaborative partnerships involve primarily public–public partnerships; and
- co-operative partnerships involve sponsors and donors to municipal programmes and activities, such as, other public entities, private and through NGO/CBO partnership, however, ownership rests with the public entity because it remains its primary responsibility to deliver services.

Types of MSPs

An MSP involves a contractual arrangement with a service provider other than the municipality itself. Such contractual arrangements for municipal service delivery may be in the form of Public-Private Partnership, Public-Public Partnership and Public-NGO/CBO Partnership. Partnerships between municipalities and the public sector, the private sector and community and non-governmental organisations are a key option that municipalities should consider

in their efforts to deal with the social and local economic development. However, improving and expanding the delivery of municipal services through municipal service partnerships (MSPS) is new ground for South African municipalities so, it is important to develop a partnership concept that is both practical and beneficial for ensuring local economic development (*White Paper on Municipal Service Partnerships*, 2000). A Municipal Service Partnership covers:

- all services listed in schedule 4, part B and schedule 5, part B of the *Constitution of the Republic of South Africa*, 1996;
- all services in schedule 4, part A and schedule 5, part B that may, from time to time, be assigned by a provincial government in terms of section 156 (4) of the *Constitution*; and
- any other service that may be, from time to time, be assigned by national or provincial legislation to a municipal council.

Public-Private Partnerships (PPPs)

South Africa still faces immense development challenges. The first five years of the RDP have seen some significant achievements in bringing economic development, but there are still enormous backlogs in basic services and higher levels of service to which most households aspire. Furthermore, even where new improved infrastructure has been provided, there is not always the institutional and financial capacity to keep those services running (Jackson & Hlahla, 1999:1). Municipalities lack the institutional and financial capacity to address this alone and have to raise the private sector finance to supplement their own resources and government grants. The borrowing of capital could be another option, but it requires a well-run-administration that is able to raise sufficient revenue to meet all running costs, including loan redemption. Municipalities are showing increasing interest in MSPs, including Public-Private Partnerships as a way of improving efficiency and accessing capital markets.

Most municipalities in South Africa are struggling to raise sufficient finance for meeting their capital needs. In the past, well-run municipalities were more able to

mobilise their own funds for capital projects. This is no longer feasible mainly because of the amalgamation of municipalities, which has seen former surpluses from 'rich' communities being fully committed to meeting the costs of running services in the poorer areas. Furthermore, raising finance in the private market requires that a municipality should demonstrate a degree of competence and financial discipline that is somewhat rare in South Africa today (Jackson and Hlahla, 1999, 4).

This is an indication that most municipalities have some shortcomings in terms of the capacity to deliver services in an efficient and effective manner, and therefore raise capital. In these circumstances, it becomes necessary for local government to involve the private sector in service provision, either to improve efficiency or to raise capital as a way of local economic development.

While the need for the private sector capital is pressing, the participation of the private sector in service delivery is more optional. South African municipalities are exploring a range of options for improving service delivery, including partnerships with neighbouring public sector administrations and various relationships with the private community-based and non-governmental organization sectors. The generic term coined for this in South Africa is Municipal Service Partnerships and includes a full range of options.

PPPs and Black Economic Empowerment

There are key features of PPPs that make them inherently excellent for achieving BEE objectives. These are as follows:

- the long-term nature of PPPs provides an opportune instrument to grow black equity and black management over time and risks are clearly identified in PPPs, and appropriately allocated, so black participants know in advance what they are committing to;

- the formation of private consortia in the form of special purpose vehicles for many PPPs facilitates long-term beneficial partnerships between new black enterprises and experienced, resourced companies - both as equity partners and in project management, and both at the private party SPV and subcontracting levels;
- where government is the buyer of a service, and insofar as the service is provided to the agreed standards, there is a steady revenue stream to the private party, reducing risk to new black enterprises;
- principal equity sponsors in a PPP are often also first-tier subcontractors, building incentives for optimal risk management;
- PPPs provide significant subcontracting opportunities for black enterprises, where early cash-flow benefits can be derived as delivery commences;
- PPPs have far-reaching broad-based BEE potential: through the subcontracting and procurement mechanisms they can involve a full spectrum of large, medium and small enterprises, and bring tangible local economic development benefits to targeted groups of people.
- return on equity to the private party is competitive where risk is properly assumed.
- there is an increasingly strong demand for black professionals as transaction advisors to both institutions and private parties in PPPs.
- PPPs develop skills.
- PPPs create jobs, (www.ppp.gov.za).

Public-Public Partnerships and Cooperative Governance

The inter-governmental relationships have given way to co-operative governance. The *White Paper on Local Government*, 1998 together with the *Constitution of the Republic of South Africa*, 1996 (Act 108 of 1996) allows public institutions to interact and assist each other in terms of service delivery. In such cases, a public institution, such as, a municipality might not be in a position to provide a specific service, and as granted by the *Municipal Systems Act*, 2000

(Act 32 of 2000) it may choose another municipality in a better position to provide such a service on its behalf. Such a municipality can, therefore, enter into such an agreement or contract arrangement with other public sector entities to supplement its capacity in terms of skills and expertise, finance and technical capability of the partner.

There are two streams of Public-Public Partnerships, according to Craythorne (1997, 174). These are horizontal and vertical partnerships.

Vertical partnerships occur when municipalities enter into a partnership with another public entity from a different sphere of government since it falls under local government, for example provincial or national government. In most cases a municipality may seek, usually, financial and technical support, from either national or provincial government, and also in terms of training initiatives. This may also take place in the other way round, where a municipality is funded by either of the two to carry out a national or provincial obligation that may not have been included in the municipal budget.

Horizontal relationships refer to partnerships that exist between municipalities, across all categories. This means that if a local municipality (Category B municipality) is in partnership with a district municipality (Category C) or a Category A municipality. This is so because all these categories are under one sphere, which is local government. However, they are different in terms of size, capacity and capability of executing their duties. This type of partnership is the most common form of partnership.

Community-Based Partnerships

Tooles and Burdess maintain that a partnership between the local government and community-based organizations has encouraged local people and organisations to play a greater role in the provision of their local services and has led to the development of a variety of 'community' organisations aimed at

stemming social and economic decline, (2004, 1). Local decision-making being one of the functions of the citizens gave localities some sense of autonomy and some discretion over their affairs. According to research conducted the Federation of Canadian Municipalities (2002, 2), local municipalities are working together with community-based organisations to create economic opportunities and improve the quality of life in their communities.

These CBO initiatives results in community capacity building and attempt to stimulate participation on a broader basis, especially in local development associations. In so doing, governments at the local level have attempted to shift the responsibility of local sustainability to community level. Self-organisation implies that communities have resources at their disposal so that they can develop their own economies. This arrangement, similarly to that of a Public-Public Partnership, is less expensive hence the community-established self-help schemes are normally not for gain or profit and are not necessarily influenced by the market forces in their services. In general, CBOs are known to promote the principles of participation, empowerment, ownership, learning and collective action.

The principle of participation

Through participation, a solid, local knowledge-base is used for development. Local people, through experience of the years they have lived in deprivation, surviving the hardships of apartheid and poverty have something that outsiders do not have, such as their common knowledge of the economic environment dynamics. Swanepoel, believes that the huge problem of sustaining development is resolved if the affected people participate, knowing that they have a stake in the effort and the results (1997, 5). Often the poorest of the poor do not get their fair share of the fruits of development; therefore participation must include them (Gran, 1983, 2).

The principle of empowerment

Sherbini is of the idea that power must accompany participation. Even Swanepoel declares that participation without power 'is an empty and frustrating process for the powerless' because chances are high that they can be used as cheap labour, (1986, 9). The principle of public participation stipulates that members of the community must participate in initiatives that affect their lives like local economic development because it is their democratic right to do so, (1997, 6). Empowerment demands the knowledge and understanding of the local people with regard to decision-making and the ability to put this into effect.

The principle of ownership

Gran, believes that local economic development projects do not belong to the initiating NGOs or government departments, but the community. In this principle, the vital thing to note is that it seeks to entrench the ownership of development where it belongs, with the community, (1983, 196). Otherwise, the private partners, public entities and NGOs are merely facilitators of development according to this principle.

The principle of learning

By continuously striving to fulfill their needs, people learn to realise their objectives more easily, also known as learning by doing. This principle outlines the fact that responsibility is distributed and shared between the people and the development organization together with its workers. All these groups learn from the realities of the situation, no one teaches another. Soedjatmoko calls it "... a collective process by which neighbourhoods, villages, communities, and ultimately the nation state prepare themselves not only to adjust to change, but also to direct change", (1986:20).

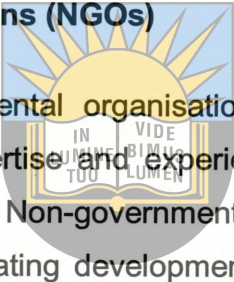


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The principle of collective action

Community development is not the action of an individual or a few individuals but a collective activity in that a group of people sharing mutual interest, sentiment or concern act together and in concert. This does not necessarily mean that all people who stand to gain from the community development will act together, but an exclusive group which will enhance the learning process because the entire group is involved throughout and learn to work as a team. Kent says that people's power is realised by groups working together, (1991:316).

Non-governmental Organisations (NGOs)



Partnerships with non-governmental organisations can be effective ways of gaining access to external expertise and experience. They can also stimulate local economic development. Non-governmental organisations often have particular skills relating to facilitating development initiatives, developing small, medium and micro-sized enterprises, and capacity-building. Another advantage of these partnerships is that non-governmental organisations often have close linkages with community groups and can act as effective intermediaries in development initiatives.

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Municipalities should also consider including non-governmental organisations and community-based organisations in partnerships with other public or private institutions. For example, some municipalities have found three-way public-private-community-based organisation partnerships to be very effective with respect to maintenance projects such as sewer rodding. In such partnerships the municipality provides funding and project management capacity; the private sector contractor provides access to equipment and training; and the community-based organisation provides functions such as the recruitment and management of local labour and community liaison. This approach enables the transfer of skills, creates employment and provides an effective service without draining municipal capacity (*White paper on Local Government*, 1998).

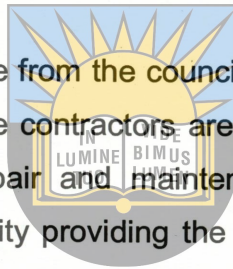
According to Walters, the power of non-governmental organisations cannot be underestimated because they have got strong support at their capacity for development and economic empowerment, (1993:149).

Types of MSPs contracts

According to Section 2 of the *Green Paper on Municipal Partnerships*, 1997, MSPs contractual agreements can take forms of service contracts, management, leases and concessions.

Service contracts

A service provider receives a fee from the council to manage a particular aspect of the municipal service. Service contracts are usually short-term (1-3 years). Common examples include repair and maintenance of billing and collection function. In most cases, the entity providing the service employs and manages the workers and resources involved.



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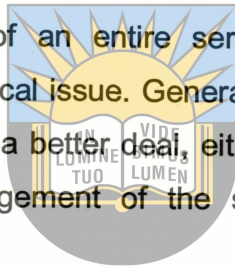
It is common practice for municipalities to contract with specialist private companies to provide specific services. Specialist companies can sometimes provide economies of scale and specialist expertise and experience more efficiently than in-house capacity. Contracting out can range from the contracting of specific aspects of a particular service, to the introduction of competitive tendering for the delivery of most aspects of a service. Where services are contracted out, municipalities should protect standards and promote quality through tender evaluation processes, contract specifications, and contract monitoring and compliance techniques.

In developing and assessing tender documents, municipalities should be aware that the lowest bidder is not always the best contractor. While price is an important factor, the financial standing of the contractor, their commitment to providing training and good employment conditions, willingness to use local labour, the technical capacity to undertake the contract, environmental and health and safety record, and commitments regarding service tariffs, quality

standards, quality control systems and customer relations are equally important. Municipalities can also use contracting out as a means of empowering local economy through emerging business.

Management Contracts

The service provider is responsible for the overall management of all aspects of a municipal service but without the responsibility to finance the operating, maintenance, repairs or capital costs of the service. Management contracts are typically for 3-5 years. Where a large number of functions associated with a service, or the management of an entire service, are contracted out, the allocation of risk becomes a critical issue. Generally, where the contractor takes on higher risks it also demands a better deal, either in the form of more control and autonomy over the management of the service or increased financial rewards.



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Contracting out is most effective when municipalities are both clear and specific about the nature of the service they are seeking from a contractor

Payment under management contracts specifies the payment of a fixed fee plus a variable component, the latter being payable when the contractor meets or exceeds specified performance targets. The management contract assumes no risks for collection of tariffs from service consumers, although high collection rates can trigger incentive payments for the management contact. An example is the management of a water utility.

Leases and concessions

Leases and concessions are forms of public-private partnerships that are most common for services where large-scale capital investment is required. They typically differ from contracting out in three important respects:

- the duration of the contractual relationship between the municipality and the contractor is usually longer (often between 20 and 30 years);
- the contractor is usually required to take charge of the assets and infrastructure associated with the service for the duration of the contract, and to invest in them. (The investment of the contractor in assets and infrastructure is usually the driving motivation for a municipality to enter into a lease or concession agreement); and
- the risk implicit in the contractor's responsibility for infrastructure development is normally accompanied by the transfer of responsibility for revenue collection (user-charges) to the contractor.

A variety of mechanisms exist through which the contractor can take responsibility for the development of new infrastructure, or the rehabilitation of existing infrastructure. The contract period is typically long enough for the contractor to recover their investment in infrastructure through revenue generated from user-charges. The contractor will own the assets for the period of the contract. At the end of the contract, ownership of infrastructure and assets is transferred to the municipality.

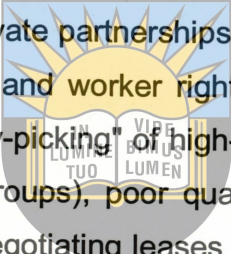
The variety of types of concessions and leases is reflected in the names of the partnerships, including the build-operate-train-transfer (the contractor builds the asset, operates it for a period, and then transfers it to the municipality). The service provider undertakes to design, build, manage, operate, maintain and repair at its own expense, a facility to be used for the delivery of a municipal service. The Council becomes the owner of the facility as soon as it is completed.

A BoTT may be used to develop a facility or expand an existing facility. In the latter case, the service provider assumes responsibility for the operating and maintenance costs of the existing facility but may or may not (depending on the contract) assume responsibility for any replacement or improvement of the facility. A BoTT requires the Council to pay the service provider a fee (which may

include performance incentives) for the services provided leaving responsibility for tariff collection with the council.

Concessions and leases can provide an effective mechanism to maximize private sector investment in municipal infrastructure. Where this type of partnership is municipality-driven, and aims to harness the capacity of the private sector to meet public interests, substantive benefits can be derived.

However, if poorly managed and structured, the risks of these partnerships are high. For this reason national government has developed a regulatory framework for the development of public private partnerships to ensure public accountability and the protection of consumer and worker rights. Regulation is vital to guard against monopoly pricing, "cherry-picking" of high-income customers (and hence limited access for low-income groups), poor quality services and unfair labour practices. In contracting out or negotiating leases and concessions, the objective of black economic empowerment must also be promoted through better structuring of such deals.



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In a lease, the service provider is responsible for the overall management of a municipal service and Council's operating assets are leased to the contractor. The contractor is responsible for the operating, repair and maintenance costs of those assets.

In some cases, the contractor is also responsible for collecting tariffs from consumers of the service and assumes the collection risk. The contractor pays the council rent for the leased facilities sometimes including a component that varies with revenues or profits. Generally, the contractor is not responsible for making any new capital investments or for replacement of the leased assets. Leases are typically for eight to 15 years, for example include the lease of the municipal market, part on water system.

Under concession, the service provider undertakes the management, operation, repair, maintenance, replacement, design, construction and financing of a municipal service facility or system. The service provider also assumes the responsibility for managing, operating, repairing and maintenance of related existing facilities. The contractor collects and retains all consumer tariffs, assumes the collection risk and pays the Council a concession fee (sometimes including a component that varies with revenues or profits. However, the municipality still remains the owner of any existing facilities operated by the concessionaire and ownership of any new facilities constructed by the concessionaire is transferred to the municipality at the end of the concession period.

Challenges facing MSPs in South Africa

According to Jackson and Hlahla the question is where South Africa is now in terms of facing the challenges of MSPs (1999, 8). Such challenges include, *inter alia*, understanding and dealing with the continuing negative perceptions of the private sector's role, clarifying the roles of the private sector and the government, especially local government; and those issues that must be addressed in order to produce effective and efficient MSPs in South Africa are the following;

- there is on going debate around the issue of the price services fetch after being provided by a profit seeking entity;
- furthermore, private partnerships have been condemned of making localities lose their jobs in the hands of experts hired to deliver a service;
- obviously prices may well rise under the new arrangement because the costs of proper operations and maintenance would basically need to be raised by service providers, typically through sales so as to cover the often significant investments needed to expand the system;
- although the state often embarks in partnerships inn an effort to cut costs, it sometimes ends up costing the state itself (Costs of putting out bids, evaluating tenders negotiating contracts, monitoring and regulating the service provider can attract a high fee to the municipality);

- most of private partners seek to achieve their profit objective among other things, in so doing they end up cherry-picking on those areas that are lucrative, leaving areas that really need development; and
- there is misconception, especially when it comes to public-private partnerships. It is always linked to privatization, where the state will lose its power to control in service delivery (Under such circumstances, a private organisation can bring its employees when it takes over a specific service which leaves local people unemployed).

The *Municipality's Guide to MSPs*, states that the injustices of the past have to be redressed but the road ahead is going to be fraught with many challenges. Resources have to be spread more evenly to reach all population groups within the country. This means that local government would face budgetary constraints. There would be more projects needed by communities than allocated funds. The national government has targets to ensure that by 2008 every citizen of this country has access to water, and by 2010 everybody should have access to sanitation. This is not likely to be achieved due to budgetary constraints. The government would now have to meet the service needs of a much larger and poorer population. Therefore, the local government, as the third sphere of government, must provide people with housing, water, sanitation, electricity, primary health care, access roads and this list is not exhausted. This sphere can not ignore previously advantaged groups because they are the foundation of revenue for many local authorities and needed to recognize that previously advantaged groups were a vocal set of the population and are not in favour of the increased taxes and rates to cover expenses in previously disadvantaged groups. This include the need to recognize the huge backlog existed in service infrastructure, particularly in historically-underdeveloped areas and also the need to recognize that taxable economic resources were concentrated in formerly white areas which need to be redistributed. The local government needs to create linkages between urban and rural settlements through recognizing that most forums are functionally linked to rural areas for economic activity and the

delivery of services; and the relationship between municipalities and local communities needs to be rebuilt so as to create greater accessibility and responsiveness to marginalized groups in these communities.

Potential benefits of MSPs

Each type of the service partnership has specific benefits, to the municipality, community and stakeholders.

Public-Public Partnerships

This kind of arrangement encourages and maximizes the sense of ownership by the public, even the beneficiaries themselves usually take ownership of the infrastructure because in this arrangement their role is usually maximized in decision-making even in the change of tariffs.



Then also, they have a potential of creating opportunities for the unemployed to leverage the economic potentials hence the public sector has no agenda or mandate of making profits. This form of partnership cannot be easily subjected to private business influences as the agreement is normally between the different spheres of government without the private sector involvement.

Public-Private Partnership

This form of partnership has the potential of improving the quality of service that is being provided because the private sector involvement has a potential of improve the efficacy. Cost-effective ways of operation and maintenance and even provisions are usually explored by using a number of measures, including minimizing the use of labour, even through automation approaches.

Public-NGO/CBO Partnership

With this form of partnership the service provision is normally effective and affordable. Various forms of cost-effective measures are usually explored, innovative alternatives are well-considered with an emphasis on local resources

and local skills as much as possible for the purpose of operations and the maintenance of the infrastructure. Innovative ways of exploring maximum usage of local resources have the potential of creating opportunities for the local community, and the spin-offs may benefit the local economy.

The South African Local Government Association (SALGA), in the *Guide to Municipal Service Partnerships*, is citing an additional list of benefits of MSPs such as cost savings, the mitigation of risk, improved service levels or innovations on maintaining existing levels of service, revenue enhancement, better implementation, access to capital and accountability.

Potential risks of MSPs

Just as much, service partnerships can present risks in different forms, thus according to the types.



Public-Public Partnerships

Political risks are usually high because of its nature. If it is not well managed along sound economic principles, the infrastructure or service to be rendered under the auspices of this kind of partnership is doomed to fail its objectives.

The infrastructure may fail to be self-sustainable and as a result it may consume much of public coffers for it to continue rendering a service to the beneficiaries. That this impacts negatively on the long-term sustainability of the project or service of which in the long run, may result in the total privatization of the operation of such an infrastructure.

Public-Private Partnerships

This form tends to undermine the primary objective of the public sector by only focusing on the self-reliance of the infrastructure without seriously considering the social responsibility of the public sector in providing the service. This form also has the potential of escalating the cost of service provision at the expense of

the ultimate beneficiaries affordability, and thus because of high tariffs that may become a burden to the beneficiaries.

Automation and some cost-effective ways of service provision and measures that may be employed to minimize operation and maintenance costs may also result in job losses and unemployment. The automation and personnel reduction may have a negative effect on the revenue of the municipality and also on the social stability as a result of job losses.

Public-NGO Partnerships

Over-emphasis on the usage of local skills resources and innovative cost-effective ways of operations and maintenance and services provision may compromise quality, if not well managed. There is a limited exposure to political risks in this form of partnerships. According to the South African Government Association, in the *Guide to Municipal Service Partnerships*, these are some other potential risks of MSPs such as loss of control by the municipalities, increased user tariffs, political challenges, accountability issues, unreliable services, lack of competition, bias in the selection process and labour issues.

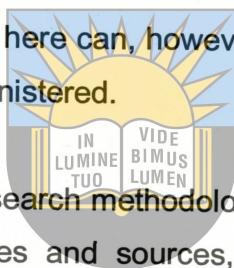
Conclusion

MSPs have been established as a result of the municipal reform that has characterized South African local government since the advent of democracy. The Constitution is designed to empower municipalities and requires them to provide efficient services to their communities. To realize this, some municipalities have already started redesigning their roles and responsibilities and have embarked on alternative service delivery mechanisms as a better way of achieving their constitutional mandates. The alternative to MSPs is for municipalities to continue providing services via their service departments which will usually be separated into autonomous units with clearly defined roles and responsibilities. They will nationally require the administrative and financial autonomy and would have to be capacitated with the necessary human and

material resources to fulfill their constitutional imperatives.

Whatever the course adopted, whether it be the internal capacitation or an MSP, the primary objective should never be lost sight of, and that is, to make service provision efficient and sustainable. Each municipality will be required to assess the options available to it, select the one best suited to it, opt for a service delivery mechanism which is appropriate to its stage of development and transformation. Municipal partnerships have often been viewed as potential privatization and have been criticised as not being a panacea to cure all problems. MSPs, it is suggested here can, however, bring about high quality and efficient services if properly administered.

The next chapter outlines the research methodology and design. It provides data collection instruments, techniques and sources, including the population and sample together with the sampling procedures.



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CHAPTER 5

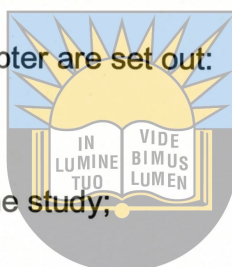
RESEARCH METHODOLOGY

Introduction

This chapter gives a description of the study method used in examining the impact of the democratization of Public Management Approaches through Municipal Service Partnerships on Local Economic Development with regards to Chris Hani District Municipality.

The following sections of the chapter are set out:

- research design
- permission to undertake the study;
- the population;
- the sample;
- methods of collecting data and
- plan for analysis of data



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Research design

In this study, the quantitative and qualitative approaches were used to ensure thoroughness and accuracy as much as possible

Qualitative approach

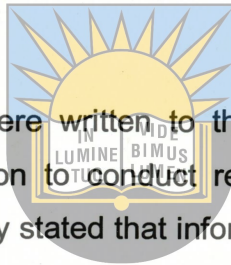
The raw data is reorganised into a form, which is suitable for computers and can be presented in a chart or graph, interpreted to give meaning to the results (Neuman, 2003, 331-332). In this quantitative approach, questionnaires were used.

Qualitative approach

The qualitative approach examines patterns of similarities and differences in all cases or relationships and also uses general ideas and concepts as tools for making generalisations (Neuman, 2003, 439-441). In qualitative research interviews were used. Gubrium & Holsten, state that "... we can learn through interviewing about people's experiences. We can learn what people perceived and how they interpreted their perceptions. We can learn how events affect their thoughts and feelings", (2002, 9).

Request to conduct research

Prior to the research, letters were written to the municipal managers of the municipalities, seeking permission to conduct research on the subject in the municipality. The letters expressly stated that information obtained would only be used for the purpose of the study (see appendix A).



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Permission to conduct research

Following the letters to request for permission to conduct this research, the municipalities granted the researcher with letters of approval, giving permission to the researcher to conduct the research (see appendix B)

The target population

A target population is defined as "...the set of elements that the researcher focuses upon and to which the results obtained by testing the sample should be generalized", (Bless & Higson-Smith, 1995, 87). In this study, the target population consisted of municipal officials, community-based organizations, non-governmental organisations and entrepreneurs as private entities in partnership with the Chris Hani District Municipality.

The sample

The size of the population was not economically and practically feasible to involve all its members. Hence a sample of research participants that best represent the population had to be obtained. Huysamen (1997, 37) distinguishes between probability and non-probability samples. In probability samples like random, stratified, and systematic and cluster samples, the probability that any element in the population will be included in the sample can be determined. On the other hand, in non-probability samples like accidental, quota and snowball samples, the probability cannot be specified.

In this study, both probability and non-probability sampling technique were used. These include stratified, purposive or judgmental together with snow ball sampling. In Chris Hani District Municipality there are 8 local municipalities whose aim is to promote local economic development.

Samples of Local Municipalities

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To obtain a sample of the local municipalities, a method of sampling called stratified sampling was used. Huysamen (1994, 40-41) believes that in this type of sampling, the population is divided into different groups called strata so that each element of the population belongs to only one stratum. Accordingly, the municipalities were divided into urban and rural municipalities. From each strata, simple random sampling was used to choose one representative municipality, hence only two local municipalities were chosen, one urban and a rural that is CHDM and Intsika Yethu respectively.

Samples of municipal officials

Purposive or judgmental sampling was used to obtain this sample. Purposive sampling uses the judgment of an expert in selecting cases or it selects cases with a specific purpose in mind (Neuman, 2003, 213). The researcher selected respondents that were specifically informative on the subject. To this end, the

Municipal Managers and the LED officials were chosen to be relevant respondents in terms of establishing municipal service partnerships and the promotion of Local Economic Development. From each municipality were 5 officials including municipal managers, hence the total number was 10 from both municipalities.

Samples of service partners

To obtain a sample of the stakeholders, the researcher used a method of sampling by referral, which is also called snowball sampling. According to Welch & Corner (1988, 193), "...when one member of the target population is found, he or she is asked to name other members of the target group who are then interviewed". This made the task of the researcher easier because the identified member had knowledge about the problem at hand. In this study, the municipalities identified for the researcher their service partners who were relevant. Only those community-based, non-governmental, private organizations and other public entities who are working with the municipality to promote LED were identified and interviewed. The respondents in this category were the project managers, of which from the rural municipality, there were not much partners. However all the types of partners were represented enough, 1 NGO, 3 CBOs, 2 Private partners and 2 public partners, which equals 8 plus 2, 4, 4 and 2 partners from the urban municipality respectively, which equals 12. A total number of 20 stakeholders were interviewed from both the municipalities.

Data collecting methods and instruments

A data collection instrument is a form or set of forms used to collect information for an evaluation. Forms may include interview instruments, intake forms, questionnaires, and survey and attendance records. In this study interviews were conducted and questionnaires were also distributed to members in the sample so as to get information.

Primary data

To collect primary data, the question method was used in the form of questionnaires and interviews.

Use of the questionnaire

Structured questionnaires were designed and completed by respondents from Chris Hani District Municipality. In this case the researcher utilised self-administered questionnaires. A questionnaire is defined as a formal, written, set of closed-ended and open-ended questions that are asked of every respondent in the study. This study has a combination of both. This enabled respondents to fully express themselves and to give detailed and precise information. It gives accurate and adequate information about the situation on the ground.

The choice of the questionnaire as an instrument has the following advantages:

- it is an easy method of gathering data from many respondents;
- it is easy to deliver questionnaires;
- the questionnaire saves time and is less expensive to distribute; and
- the questionnaire is standardised, making it easy to compare the opinions of respondents in each item.

The researcher was also aware of the following disadvantages:

- the respondents might have answered what they thought would please the researcher and might not reflect their true attitudes, thus distorting the facts;
- some respondents might choose not to answer all questions and no reasons might be given for the omission; and
- valuable information might be lost as the answers are usually brief especially in close-ended questions where the scope for expatiation is not given. To overcome this weakness the participants were allowed to

express their opinions and suggestions as they deemed fit at the end of the questions.

The questionnaires were translated into Xhosa by the researcher to some of the respondents who were illiterate.

Distribution of questionnaires

The researcher distributed all the questionnaires and assisted the respondents who found difficulties with the language and general understanding of the questions.



Ethical Considerations

The researcher observed the following principles with the aim to protecting the dignity and privacy of every individual who, in the course of the research work, were requested to provide personal or commercially valuable information.

Confidentiality

The respondents were assured that information received from them would be treated confidentially. To ensure anonymity the respondents were requested not to identify themselves in any manner when completing the questionnaire.

Informed Consent

The respondents were informed about the reason for data collection in order to minimise any anxiety and discomfort which could be caused by lack of knowledge regarding what was to be done with the information.

Responses

Personal delivery of the questionnaires ensured a high return rate of completed questionnaires. To this end, all questionnaires were hand delivered to the respondents by the researcher and all of them were returned.

Interviews

The researcher used structured interviews that included planned and detailed questions beforehand. The interviews were also non-scheduled. According to Bless & Higson, a non-scheduled interview requires respondents to comment on widely defined issues. The interviewees are free to expand as they deem fit, focusing on particular aspects and relating their own experiences, (1995:107). The interviewer would only intervene to ask for clarification or further explanation but not to confront the interviewee with probing questions. Interviews consisted of the opening phase where an introduction was made in an attempt to get the respondent to relax. Then came the actual phase where questions were asked and answers recorded. The last phase was the closure where the researcher acknowledged the participation and co-operation of the respondent.

Conclusion

This chapter discussed the methods used to collect data. Quantitative combined with qualitative methods with the use of questionnaires and interviews was adopted. Population was identified where the sample was derived from. Sampling techniques ensured representivity and relevance of the target group to this study. Interviews were held with municipal officials. Questionnaires were delivered to stakeholders. The researcher also deemed it necessary to look at other documents like the municipal reports on LED and MSPs and those of the service partners. The assumption was that the methodology used to collect data would provide a true reflection of the findings and would in turn enable the researcher to determine if democratising public management through MSPs would have an impact on LED.

The next chapter is devoted to the analysis of the data collected.

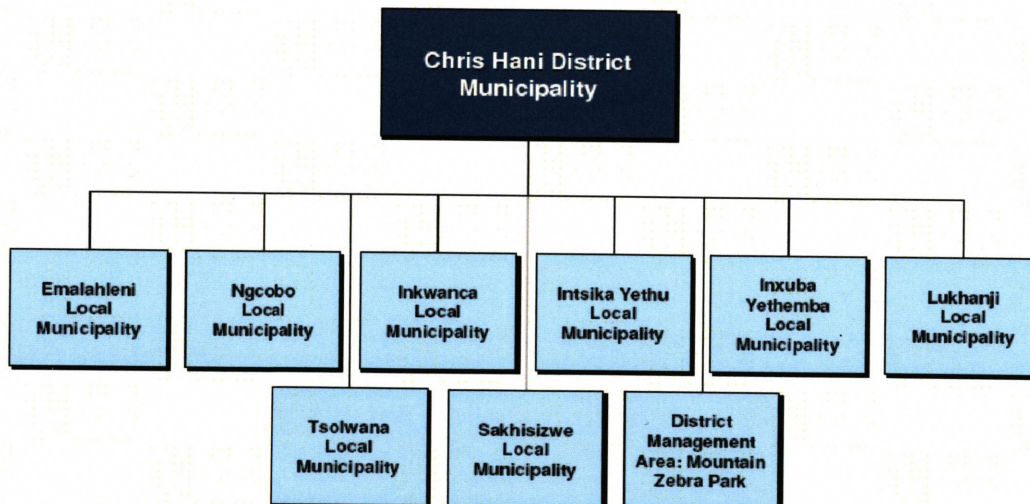
CHAPTER 6 DATA PRESENTATION AND ANALYSIS

Introduction

Chris Hani District Municipality has shown commitment in addressing the inequalities and service backlogs by democratizing public management approaches through giving communities, NGOs, private sector organizations, a chance to participate in the matters that affect their lives, including the development of local economies. This chapter discusses questionnaire responses and interviews by way of analysing and interpreting the collected data. This enables the researcher to assess the impact of the democratization of public management approaches through municipal service partnerships on local economic development, with specific reference to CHDM.

CHDM is a Category C municipality as envisaged in Section 155(1)(c) of the *Constitution of the Republic of South Africa, 1996* and in terms of Section 10 of the *Local Government: Municipal Structures Act, 117 of 1998*. Within its area of jurisdiction there is one District Management Area (Mountain Zebra Park) and eight Category B municipalities as envisaged in Section 155(1)(b) of the *Constitution* and Section 9 of the *Structures Act*.

Table 2: Local Municipalities under CHDM



Source: Chris Hani IDP 2005

Overview of CHDM

The Chris Hani district is a comparatively poor district in terms of poverty measures. It has high rates of historically disadvantaged individuals, (49 percent) of the total population, huge poverty gap and number of people living in poverty (75.4 percent). The population is predominantly African (94.1 percent). The coloured population makes 3.9 percent of the population.

The Chris Hani district, like most other districts shows a significant child dependency. About 39% of the population is below 15 years of age. More than half of the population is below 20 years. This is an indication of economic under-development of this district. The table below indicates some historical overview of the district.

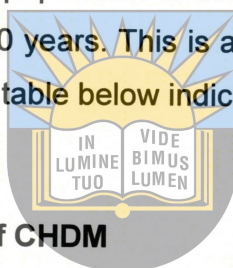
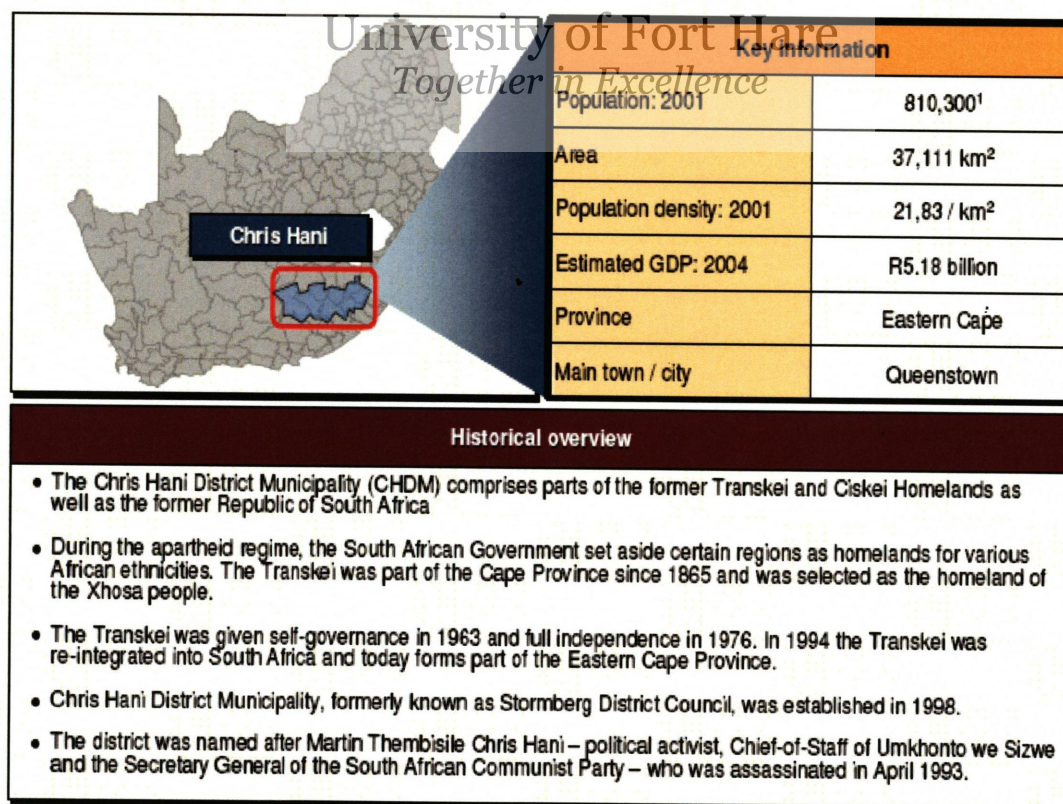


Figure 1: Historical overview of CHDM



Note: ¹There is reason to believe that the Census 2001 statistics for population are not very accurate.
 Source: Stats SA Census 2001, *Chris Hani IDP 2005*, Quantec

The economic sectors found within the Chris Hani District Municipality are as follows:

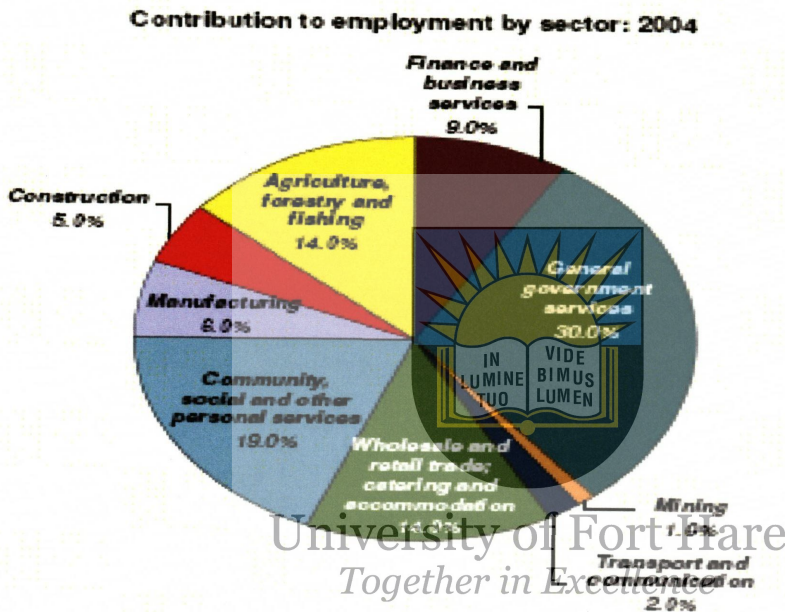
- forestry;
- mining (minerals, clay and coal);
- agri-processing (irrigation schemes, food canning, organic farming & produce);
- farming (commercial, livestock and small holding);
- catering (accommodation and small scale service catering);
- tourism (game lodges, arts & crafts, museum, rock & shell art, game reserves, hiking trails, dams (recreation), accommodation, establishments);
- manufacturing (timber, crafting, brick making);
- construction (bricklaying and road construction);
- services (medical practitioners, consulting, information technology);
- finance/real estate;
- housing and property industry;
- retail and commercial industry;
- small macro and medium enterprise sector; and
- informal sectors (hawkers and street vendors).

However, The District directives are derived from national and provincial strategic documents and its vision of “a well capacitated municipality, characterised by a good quality of life and a vibrant, self- sufficient economy, driven by skilled communities living in a safe and healthy environment”. The District’s priority sectors in the economy were identified as:

- agriculture and agro-processing;
- forestry and wood processing;
- tourism;
- construction;
- manufacturing; and
- trade and business services.

The above-mentioned sectors are considered as high priority sectors. From the diagram below, each sector demonstrates how much it contributes in terms of employment.

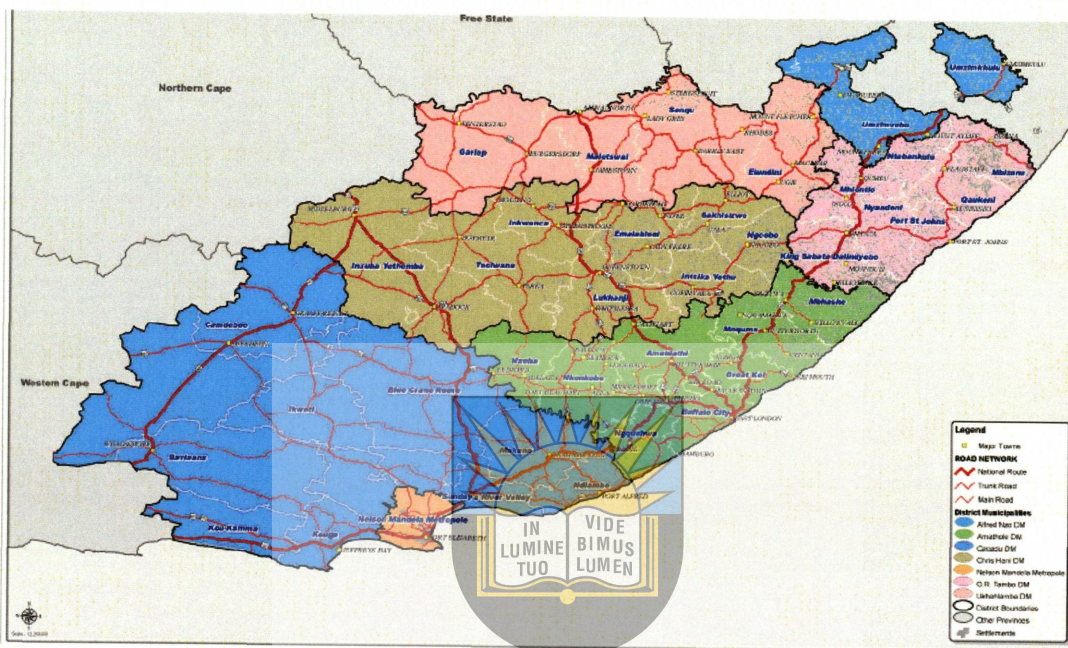
Figure 2



Source: Quantec, Monitor analysis

The Chris Hani District is a land-locked district situated in the center of the Eastern Cape hinterland, between the Eastern Cape coastline and the Drakensberg Mountains. The district incorporates both former Cape Province Administration (CPA) areas of the Karoo in the west, as well as former Transkei areas in the east, making for a district of varied physical conditions. The figure below shows the location of the district and other Eastern Cape municipalities.

Figure 3: Eastern Cape Municipalities.



Source: Chris Hani District Municipality, IDP, 2005

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Discussion of responses

From the sample of 10 municipal officials who were found relevant to the study five from each municipality and 20 service partners, questionnaires and interviews were conducted. From this, 30 questionnaires were self-distributed and administered, and were all returned.

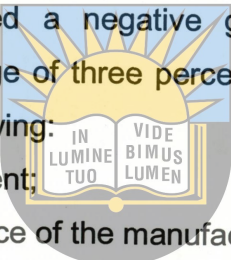
Thematic areas of the survey

Central areas for probing into relevant themes were organised, these are associated with the concepts of municipal service partnerships and local economic development. The context of local government democratisation in South Africa could not be separated, hence, the following themes were studied; job creation and livelihood opportunities in areas such as tourism, manufacturing, agro-processing, forestry and agriculture. The municipality's fight against poverty through reducing unemployment rates and raising the educational levels of responsible stakeholders in the municipality, in cognisance of policy and

legislation of the country, province and the municipality itself, were all looked into. These are deemed to be indicators on the influence of MSPs on LED.

Socio-economic analysis of CHDM

It is suggested that the province of the Eastern Cape is haunted by the policies and practises of the past. In particular, CHDM has an almost non-existent industrial economy and a high dependency upon primary economic activities. This is further encumbered with the imbalances resulting from the homeland system. Actually, the economic growth of the district has been a volatile one. In 2001 the economy experienced a negative growth of one percent when compared to the national average of three percent during the same period and this can be attributed to the following:

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- high levels of unemployment;
 - a decline in the performance of the manufacturing sector;
 - falling mineral prices leading to reduced numbers of jobs offered within the sector, (CHDM has historically been dependent upon this income);
 - a decline in the commercial farming sector because of,
 - a series of major droughts;
 - decreasing agricultural prices;
 - destructive veld fires; and
 - increased stock theft.
 - lack of agricultural and business skills to ensure success; and
 - poor infrastructure.

In this respect, a Rapid Service Survey conducted by Fort Hare Institute for Socio-economic Research produced unimpressive income and unemployment figures, due to the issues raised in this analysis.

Table 3: Members of Households currently unemployed and household income with less than R 1500/Month

Local Municipality	Household income less R1500/month (%)	
	RSS, 2006	Global Insight, 2005
Inxuba Yethemba	63.0	43.4
Tsolwana	71.0	42.5
Inkwanca	57.2	58.0
Lukhanji	50.6	54.4
Intsika Yethu	76.0	66.1
Emalahleni	59.9	58.4
Engcobo	75.3	75.8
Sakhisizwe	75.9	60.4

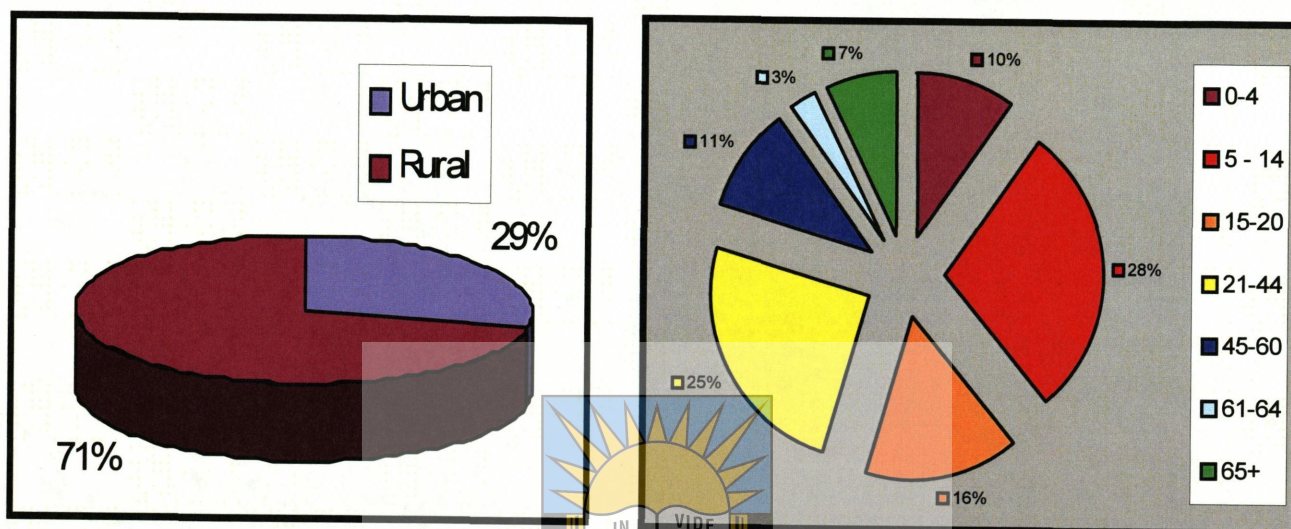
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Source: RSS, 2006 and Global Insight, 2005

It is clear from the table above that high levels of poverty challenge the district, mainly because most of its citizens are inactive economically (54.4 percent of the population is under the age of 20) and they live in the rural areas. Due to the high unemployment rate, the reality is that many of the potentially economically active population are economically dependant on pensioners and grant-earners within the household.

The diagrams below show the breakdown.

Figure 4: Population Distribution Figure 5: Age Groups



Source, CHDM IDP, 2007-2011

The income figures for this district indicate that 75 percent of the households have an income of R15 000/annum or less than R1500/month. More than 75 percent of the economically active age groups are unemployed. Such an economy remains stagnant until the district identifies a need for programmes or projects that will create sustainable jobs and food security to poor communities, and thus improve livelihoods in CHDM.

Policy and legislation

The National Spatial Development Perspective (NSDP) advocates that local government should focus on economic growth and employment creation in their areas of jurisdiction in the most effective and sustainable manner. This is so because economic growth is a prerequisite for the achievement of other policy objectives, key among which would be poverty alleviation. The NSDP categorization gives the Chris Hani District Municipality low to medium resource potential, low human need and low economic activity, thereby implying that the District should really focus particularly on human resource development, in order to promote local economic development.

The Provincial Growth and Development Plan (PGDP) advocates the systematic eradication of poverty through a holistic, integrated and multi-dimensional approach to:

- pro-poor programming;
- agrarian transformation and strengthening of household food security; and
- the consolidation, development and diversification of the manufacturing base and tourism potential.

These objectives are supposed to be realised through the support of the three foundation objectives, namely, infrastructure development, human resource development and public sector and institutional transformation. The PGDP finds expression in the district and local municipalities IDPs. The PGDP was launched in 2004 to address Provincial development challenges and opportunities. More recently, ASGISA has been launched to accelerate economic growth throughout South Africa.



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In anticipation of the requirements of developmental policies, and in line with the *Municipal Systems Act* (32 of 2000), the Chris Hani District Municipality has undertaken a review of the Integrated Development Plan (IDP) 2006-2011. The IDP process informs all planning, budgeting, monitoring, management and decision-making within the district municipality's areas of jurisdiction. It is, therefore, the strategic planning tool which coordinates and aligns all development initiatives which are implemented by government, civil society and the private sector. The IDP has been formulated according to guidelines for a credible IDP and the local government five year strategic agenda focus areas of:

- municipal transformation and institutional development;
- service delivery and infrastructure;
- local economic development;
- financial management; and
- good governance and public participation.

This is further informed by the requirements laid by the *White Paper on Local Government*, 1998, that local government should work in hand with its citizens to harness local resources for the development of the local economy. To this end CHDM has put in place a detailed plan of action, specifying investments to be packaged. In fact, preparatory work has already taken place for the industries in Chris Hani. However, the main challenge now is to galvanise industry role-players to ensure accelerated and shared growth.

Major plans in the pipeline include the two ASGISA projects to benefit Chris Hani, in terms of employment and poverty reduction. These are:

- Bio-fuels (sugar beet in Cradock and beyond); and
- the Timber Industries Cluster (in the East of CHDM)

On top of the above mentioned, there are two other potentially large projects in CHDM that could also be adopted by ASGISA, namely:

- Molteni-Indwe Coal linked to electricity generation (being explored by the Department of Mines and Energy (DME); and
- Augment Gariep-Fish River Water Transfer Scheme to allow increased irrigation in CHDM.

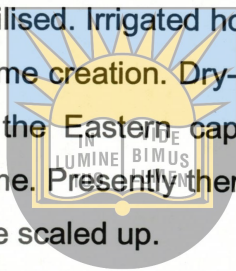
Employment creation and livelihood opportunities

The projects cited could above have a positive impact on the levels of household income and unemployment rates in CHDM. Livestock farming in the communal areas is being supported by the provincial Department of Agriculture through the construction of stock dams, dipping tanks, shearing sheds, fencing, and veterinary services to the tune of approximately R15 million over the current medium term,(CHDM Growth and Development Summit, 2007) However, there are challenges associated with increasing incomes from communal livestock farming. This can only be dealt with if the CHDM and the Provincial Department of Agriculture can make plans that include the following:

- the expansion of the effective NWGA model support;
- improved agricultural extension services;

- improve existing programmes designed to facilitate skills;
- accelerated land redistribution;
- upgrading access roads for farm logistics; and
- building animal feeds industry.

A further 7 600ha could be placed under irrigation , possibly much more if the large Gariep Transfer Project (mentioned above) were to be implemented. Presently, there is 8 000ha under irrigation in CHDM, but statistics show that the schemes are grossly underutilised, for an example, only 40 percent of the Shilo Schemes capacity is currently utilised. Irrigated horticulture, if managed well, has a huge potential for job and income creation. Dry-land farming is being promoted in the East of CHDM through the Eastern Cape Department of Agriculture's (ECDA) Massive Food Programme. Presently there are 2815 beneficiaries of this scheme in CHDM, and it could be scaled up.



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Manufacturing could also contribute a significant proportion towards the CHDM economic development. In CHDM, agro-processing industries, followed by furniture production, food processing and wood products are the most predominant. These are mainly centred in Lukhanji Municipality (Queenstown) and Inxuba Yethemba Municipality (Cradock and Middleburg, in particular) with some dairy and food processing as well.

In Queenstown only, the biggest employers are product manufacturers, such as Leather Seating, Twizza & Crickley Dairy, and Steadline Pressed Metal and there are also biltong processing plants, recycling plants, a spray factory in Middleburg (300) employees) as well as Ouma Rusks and others. The manufacturing sector is dominated by agro-processing. While the agricultural potential in CHDM is obvious, primary agricultural projects have had a minimal impact on changing people's lives. The bulk of the CHDM's farm output goes for processing outside the district. This relegates the district to the bottom of the value chain unless this can be addressed urgently.

LED through Partnerships in CHDM

In the 2004/5 financial year an amount of R2.6 million was allocated by CHDM, for the construction of a cheese factory in Dordrecht. The Department of Economic Affairs and Environment and Tourism also contributed an amount of R1.2 million, Eastern Cape Development Co-operation (ECDC) R1 million and the beneficiaries contributed an amount of R300 000. There are two project beneficiaries, The Dordrecht Commercial Farmer's Association which is made up of 11 commercial farmers and the Communal Property Association, which consists of 37 emerging black farmers to the sum of 48 beneficiaries.

The project has already created empowerment opportunities for emerging farmers in a number of ways. For example, the Koffiefontein farm near Dordrecht, valued at R1.2 million, has been donated to the CPA farmers by Land Affairs along with 20 cows. A new milking parlour has been erected on the farm just to encourage dairy farming by emerging farmers to supply milk to the cheese factory. Along with this are spin-offs to other dairy farmers in the surrounding areas now that they have a market for their milk.

Biodiesel initiatives should present huge opportunities for the CHDM, especially in and around Cradock area where Sugarbeet SA, the Central Energy Fund and the Industrial Development Co-operation (IDC) have entered into a strategic partnership that will see 6000ha of sugarbeet being planted by local farmers, the construction of a huge ethanol production plant targeting the local fuel-stock market, where Petro SA have agreed to use the ethanol from the plant for blending into their fuel-stock.

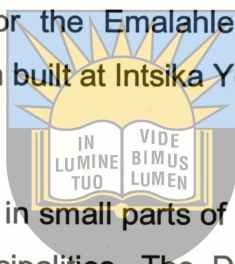
This biofuels/sugarbeet programme is bound to rejuvenate the Cradock economy and the surrounding areas, presenting opportunities for the emerging black farmers. It is estimated that the ethanol plant construction phase alone, will create up to 2000 temporary jobs and 500 permanent jobs. This also raises opportunities for the continued growth in the economic services sector.

The CHDM shows a huge potential for the development of coal mining through the large Molteno/Indwe coalfields. These opportunities are presently being investigated by the ECDC and Mintek to assess the viability of these coalfields. A public private partnership company has been formed in Indwe to take the process forward. The funding of these initiatives is very critical and for the community to participate and benefit from these developments.

The district municipality has also become engaged in partnerships with the National Wool Growers Association (NWGA), to improve the quality of wool, develop wool growers associations, train farmers on livestock and veld management and to build appropriate infrastructure such as shearing sheds and fences. Furthermore, partnerships with the Department of Agriculture have resulted in the promotion of higher quality goats and Nguni cattle. The ECDA as part of their six pegs policy have prioritised "fencing of arable and grazing lands, provision of dipping tanks and dipping material, provision of stock-water dams and human resources development. The Department of Agriculture has prioritised dairy production in Chris Hani and livestock development (ECDA Policy Speech 2007/2008).

The greatest challenge to livestock production remains low skills levels, access to land, poor veld and livestock management, limited access to the market, limited access to credit access by emerging farmers due in part to insecure land tenure, limited mentoring and information from the Department of Agriculture and dilapidated and insufficient infrastructure such as roads, fencing, stock dams and dipping tanks. In order to rectify this the district in conjunction with NWGA has built seven shearing sheds at Vaalbank, Qoqodala, Gxotyeni, Goboshane, Lapeseni, Cumakala and Bengu in Emalahleni, Kwezi in Tsolwana and is in the process of completing sheds at Esinqumeni in Engcobo and Hayton in Lukhanji. All farmers at the sheds have been trained in wool production and high quality

Merino breeding rams have been exchanged for poor quality communal rams. Further funding has been obtained for 2007/8 for a shearing shed at Ndlunkulu in Intsika Yethu. Sales pens and dipping tanks have been built at Cumakala, Bengu and Qoqodala. Dipping tanks have also been built throughout Emalahleni. The Nguni project with the University of Fort Hare has provided Nguni breeding stock at Zulu Kama, Whittelsea/Sada, Bolotwa and Lesseyton in Lukhanji, Thornhill in Tsolwana, Ncora irrigation scheme and Mjanyana in Engcobo. Fencing of camps also occurred at Whittelsea/Sada and Thornhill. The National Department of Agriculture has provided funding for the rejuvenation of the feedlot structure at Bilatye and weighing scales for the Emalahleni livestock project. Livestock handling facilities have also been built at Intsika Yethu.



Dryland cropping is only feasible in small parts of CHDM within the Intsika Yethu, Sakhisizwe and Engcobo municipalities. The Department of Agriculture have prioritised these areas under the Massive Food Programme of which there are currently 2815 beneficiaries and have provided a budget of R 6,831,000 for this purpose. The Siyazondla homestead food production programme assists with improving household food security with a budget of R 4,983,000 for the 2007/8 financial year from ECDA. There is presently 8000 ha under irrigation with CHDM containing two of the largest irrigation schemes in the Eastern Cape, that is, Ncora and Qamata, (CHDM Growth and Development Summit, 2007).

At this stage, it goes without saying that with such commitments by the various partners, the CHDM municipality is out to prioritise this programme and seek political championing from the highest executive authority in the Eastern Cape province. On their own, these partnerships however, cannot be the answer to high unemployment rates in CHDM. Small, Micro Medium Entrepreneurs could also play a role to at least boost the economy.

The SMME business environment within Chris Hani

Emalahleni has very little in terms of business support services. Business people travel to Queenstown to access business support services. There is no dedicated local institutional capacity to provide support services to local businesses. The LED Unit of the municipality, despite its efforts to assist local entrepreneurs, lacks both the technical and financial resources to provide meaningful support to local entrepreneurs.

The Engcobo municipality is characterized by a non-existent business support system. Local enterprises have to travel outside the municipal area to access basic business support-services such as business advice, information, training and access to financial support. Although there are some non-profit organizations, these are largely targeted at poverty alleviation projects.

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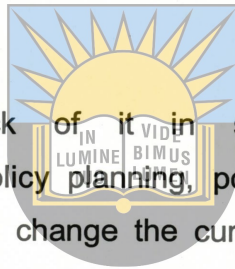
The Inkwanca business environment is one of the far less developed environments in the Chris Hani district. There are no dedicated support programmes and accredited small business support institutions. The municipality does not have the capacity or the resources at present to play an effective role in terms of policy planning and facilitation. In short, it exhibits an environment that is hostile to any meaningful business development, and as such, it requires basic or fundamental location factors to be addressed if any serious headway is to be made.

Like most rural municipalities in the district, Intsika Yethu is facing challenges relating to infrastructure and provision of basic services, unlike Inxuba Yethemba which resembles a relatively well developed business environment. The area boasts a number of business support services, relatively good business infrastructure and strategic positioning in terms of land and rail transportation.

The extent of development, however, varies strongly as one move away from the main town of Cradock to the peri-rural areas of the municipality.

Lukhanji has the most developed business environment. The area is the main urban centre of the district and its primary economic node. It is a home to both the Lukhanji and Chris Hani district municipalities, thus strategically positioning Lukhanji as both a primary economic and administrative centre of the district. The area is well- serviced in terms of business infrastructure. Interactions with local business people have revealed a lack of an appropriate business environment in Sakhisizwe.

Poor infrastructure and lack of it in some areas, for example, telecommunications, lack of policy planning, poor relationship with the local authority all signal the need to change the current situation. Tsolwana also represents one of the least developed environments in terms of business support factors. The area does not have any business support system as a result local entrepreneurs rely on Queenstown and Cradock for assistance.



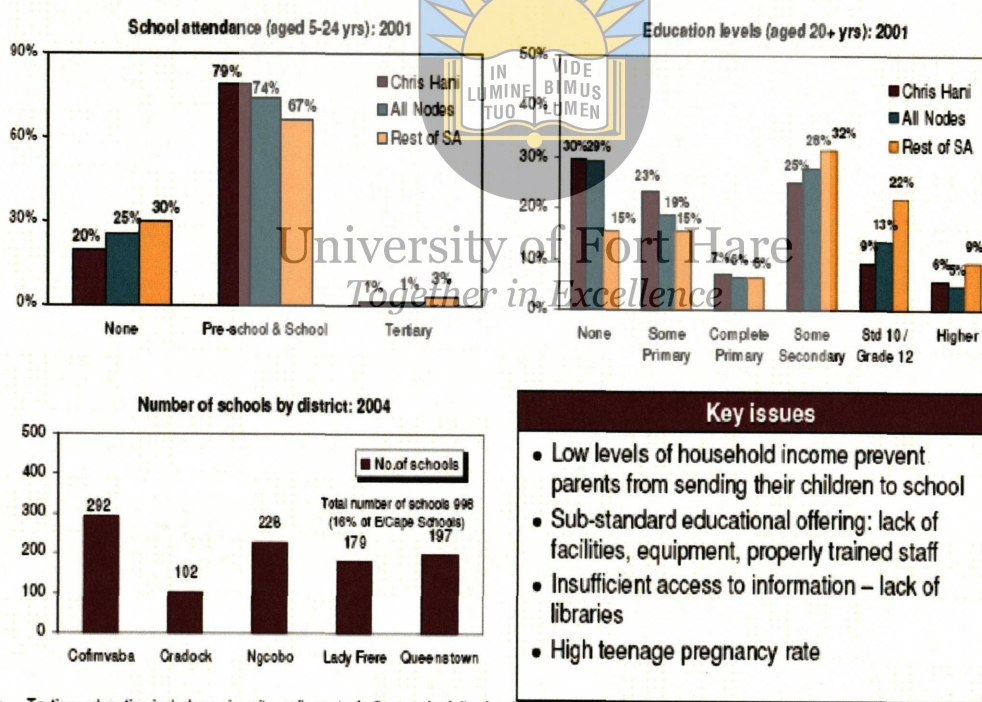
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The main challenges facing SMMEs are identified as follows:

- limited access to markets for agricultural and other products;
- high transportation costs;
- inadequate telecommunications structure: no internet access, and telephone coverage is limited;
- limited local consumer spending capabilities as a result of unemployment;
- lack of appropriate business skills;
- under-resourced and under-capacitated municipal LED units to support business; and
- Insufficient and deteriorating municipal infrastructure for example, roads, electricity, sanitation and water.

It is however, the CHDM's responsibility to coordinate and facilitate the creation of a viable business environment in the municipality, yet there are a number of reported cases of municipal irresponsiveness, slow processes and poor communication, coupled with the lack of trading infrastructure, such as business accommodation and high municipal service rates. Generally, the municipality itself is suffering from a lack of resources, both human and capital. Moreover, there are high levels of illiteracy due to the sub-standard educational levels. The diagram below summaries the educational level of CHDM.

Figure 6: Percentage education levels in CHDM and other areas



Note: Tertiary education includes university, college, technikon and adult education
 Source: Stats SA Census 2001, Chris Hani IDP 2005

The above diagrams show education levels of CHDM in comparison with other districts and the whole country. Focusing on CHDM only, the fact still remains, education levels are low throughout the district, as indicated in Table 8 below. The majority of Chris Hani residents are functionally illiterate. The resulting high number of undereducated people entering the workforce leaves Chris Hani with a significant demand on the unskilled job pool. This lack of educated individuals

entering the working economy means that there will be a large demand for unskilled work. A number of reasons may be attributed to the low levels of education, including:

- parents lack the money to send children to school;
- limited number of school facilities, and a significant number of poorly constructed and maintained schools;
- lack of adequately trained and motivated educators;
- lack of pre-primary, secondary and tertiary institutions in the region;
- lack of educational equipment;
- lack of adult literacy programmes; and
- high rates of teenage pregnancy.

Table 4: **Highest Education Levels Reached (+20 years)**

Municipalities	No schooling	Some primary	Complete primary	Some secondary	Grade 12	Higher
EC131: Inxuba Yethemba	5 786	9 068	3 152	10 023	4 886	2 099
EC132: Tsolwana	4 841	4 148	1 181	3 645	1 749	747
EC133: Inkwanca	2 641	3 251	943	2 511	1 044	590
EC134: Lukhanji	18 018	20 186	7 689	30 033	14 744	8 238
EC135: Intsika Yethu	30 798	20 167	6 206	18 992	4 521	3 217
EC136: Emalahleni	20 436	12 018	3 197	10 997	2 963	2 384
EC137: Engcobo	25 974	13 660	3 556	12 997	3 499	2 267
EC138: Sakhisizwe	5 824	6 575	1 794	7 048	2 507	1 640
DC 13 Chris Hani DM	114 318	89 073	27 718	96 246	35 913	21 182

Source: StatsSA (2001)

Whilst CHDM meets Millennium Development Goal 2 (MDG) of universal primary education, it has to urgently address the challenge of children failing to complete primary education in order to meet the targets set out by the goal. The

Department of Education, in conjunction with local municipalities and the district municipality, must, therefore, concentrate on a two pronged approach, namely: whereby learners have access to well equipped and maintained school buildings, crèches and pre-primary facilities, and the necessary funds being made available to encourage learners to complete their high school education.

LED and poverty alleviation through job creation in CHDM

The Department of Economic Affairs, Environment and Tourism (DEAET) together with CHDM are involved in various job creation, poverty alleviation and developmental projects. These projects, many which are partnerships with other stakeholders in the district, are in support of job creation and poverty alleviation and development. However, these efforts need to be supported by the efforts of other provincial and local government sectors, especially in the areas of building and maintaining infrastructure. The major projects on this regard are listed below,

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Table 5: Chris Hani partnership projects

Project name	Location	Budget		Progr
		Allocation (R)	Source	
Vlekpoort (Tourism Development)	Hofmeyer, Tsolwana, CHDM	10 000 250 000	DEAET ECDC	Devel are st
Umsobomvu Coop Dev. (Manufacture of wool & mohair products)	Inxuba Yethemba, CHDM LM Ward 3	200 000	DEAET	Produ be re devel
Progressive disability Construction (Construction)	Mlungisi, Queenstown, Ward 23, CHDM	25 000	DEAET	Busin
Elitheni Coal Mine (Mining)	Emalahleni, CHDM Ward 16	1 000 000 9 000 000	DEAET DBSA	Busin
Tshatshu Irrigation Scheme (Fresh Produce)	Tshatshu, Emalahleni LM, CHDM, Ward 1	300 000	DEAET	Busin
Eastern Cape Aloe Ferrox	Seymour, Cradock & Lady	500 000	DEAET	Busin

Benefication Programme (Extraction of natural juice and export market)	Frere, CHDM, UKDM, Provincial	400 000 1 200 000	ECDC UN	
Khuthalani Agricultural Coop (Agro-processing)	Dordrecht, Emalahleni LM, Wards 8 & 10	100 000 2 450 000	DEAET DBSA	Progr
Ikhwezi Lomso (Poultry and vegetable garden, Arts & Craft, HIV & Aids project)	Engccobo LM, Ward 8	650 000 100 000	DBSA DEAET	The p assist
Eastern Cape Biodiesel Programme (Planting of trial crops for extraction of natural oils)	Hofmeyer, Middleburg, Engcobo, CHDM, UKDM, Provincial	975 000 1 460 000	DEAET ECDC	Busin
Hydroponics (Fresh produce)	Tsomo, Intsika Yethu LM, CHDM, Ward 14	100 000 330 000	DEAET Heath	Busin

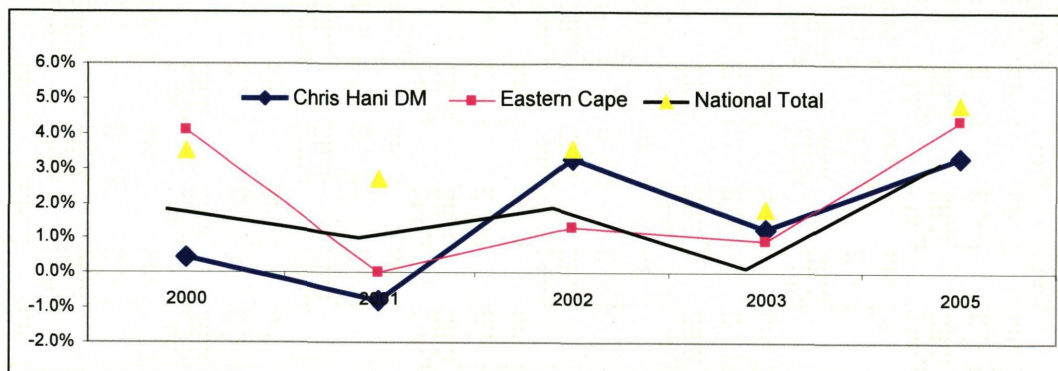
Source: CHDM GDS, 2006

Opportunities and Challenges for Stimulating Growth

Economic decline has clearly been one major challenge for growth in Chris Hani. However, chances and opportunities for growth exist. Reviewing LED strategies and plans together with investing in skills development can actually revamp the district's economy. More precisely, building strong partnerships is then again advocated as a major step of stimulating economic growth and development.

The Chris Hani economy has experienced an overall decline from 2001-2005 with a recent growth rate. This is in contrast to the national economy that experienced consistent positive growth rates between 2001 and 2005 as shown in the diagram below.

Figure 7: CHDM Economic status against National



Source: CHDM GDS Report 2007

However, this positive growth has not been accompanied by high levels of job creation and poverty reduction, instead unemployment rates are rising mainly due to the economies inability to absorb existing and new job entrants. In addition, the lack of diversification within the economy means that it is vulnerable to fluctuations within a few key sectors. Declining infrastructure, lack of capacity and poor service delivery add to the district's economic woes.

LED Strategies and plans

The existing LED strategies and plans are currently being reviewed so that they promote the diversification of the economy so that it does not become reliant on a few sectors but also creates decent jobs and alleviates poverty.

Investment in skills

The district municipality has a low skills base that severely retards its ability to stimulate and grow its economy. This can be overcome by building strong partnerships with key stakeholders to drive skills development such as educational institutions (primary, secondary and further education institutions), the Department of Labour and national and provincial initiatives such as those driven by Department of Provincial Local Government and Development Bank of South Africa.

The Department of Labour's (DOL) national skills fund which targets strategic projects should assist in increasing skills as will the district's ability to reposition itself in such a manner that it will benefit from other initiatives such as the ASGISA's Joint Initiative on Priority Skills Acquisition (JIPSA) initiative. In order to develop the competitiveness of the district, it is the strategy to pursue a policy of partnership building with the private sector, the national and provincial departments, civil society and institutions that have the capacity to support the development efforts of the district. These partnerships are developed through the various forums of the district and its Inter-governmental Relations (IGR) clusters which seek to collaborate and integrate relevant programmes and projects. These partnerships and the emphasis on cooperative governance will also increase competitive advantages amongst municipalities within and outside the district. The development of some of these sectors and creating their competitiveness requires adequate conceptualization, planning and implementation that look beyond municipal boundaries.



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Municipalities also have to focus on providing development infrastructure such as water, sanitation, transportation, electricity and telecommunication that will meet the needs of the enterprises. The availability of the information & Communications Technology (ICTs) is an advantage in strengthening the locality. In addition the municipality must facilitate the provision of the services that are not of their power and functions such as electricity, roads and telecommunication in order to create a competitive environment that will retain the existing business and attract new businesses. Municipalities must also earmark and prioritise land for development in line with their Skills Development Fund and urban zoning schemes as well as looking at incentive packages to attract investors such as lower municipal rates and minimal red tape.

The district and local municipalities should create an enabling locality that will be relevant to the enterprises, thereby improving the quality of the service and the way they interact with the private sector. This includes informing businesses about the internal workings of the municipality including policies, mechanisms and the processes required in dealing with business related issues.

Conclusion

In democratised public management, local authorities should be institutionally separate from central government and assume responsibility for a significant range of local services, as enshrined in section 152 of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) mainly to provide a democratic and accountable government, health services, community and economic development. These authorities should have their own funds and budgets and should raise a substantial part of their revenue, because section 152 states that municipalities must structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community. The authorities would be governed internally by councils predominantly composed of popularly elected representatives. It is only in this manner that democratic public management approaches can fully function and be justifiable in their existence.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

Introduction

The democratization of public management approaches can be done in more than one way, however, the focus of this research is through municipal service partnerships. This is yet another way of promoting local economic development. Municipal service partnerships offer a great choice by which municipalities can deliver services. Not only does the municipality benefit delivery of services on its behalf, but in the most economic and cost effective manner. It is in these different forms of partnership that the community gets to work, harness and utilize local resources to improve their economic way of life. This process reduces poverty, creates some form of employment and it is also known as Local economic development. In short local economic development is a process by which the local citizenry in partnership with municipalities, private interest groups or individuals and non-governmental organizations work together with the available local resources to improve local economies.

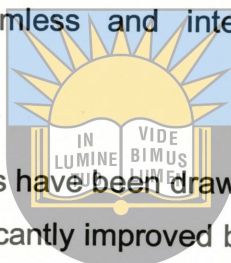
This chapter is dedicated to highlighting on the conclusions that were drawn in the research, henceforth the recommendations that not only CHDM should follow but other municipalities in and outside the Eastern Cape Province.

General conclusions about CHDM

It has been noted above that there are many ways to improve service delivery. Partnering is becoming recognised as a very positive way to enhance local economic development. It could be through partnership with private businesses (Public-private partnership), community (Community-based partnership), and non-governmental partnerships or through other public entities (Public-public partnerships). It has shown in this research that municipal service partnerships have done a lot to shake up the sleepy and less utilized local resources for the development of local economies, hence Local Economic Development. As is has

been alluded to earlier on, MSPs provide a better option to speed up service delivery and to ensure local economic development in the municipality. This is happening in the most cost effective and efficient manner as it draws the expertise of the private sector to serve in the most efficient and cost cutting manner.

However, much more needs to be done to realize the *Local Government White Paper*, 1998 vision of developmental local government. The achievement of this vision is integrally linked to a supportive role by national and provincial government in promoting seamless and integrated service delivery and development in communities.



The following general conclusions have been drawn from the study:

- services have been significantly improved by introducing more democratic public management approaches, which draw on the knowledge of public service workers through partnerships between public agencies, and by means of public-community partnerships;
- municipalities are always responsible for service delivery and they have to be developmental, hence CHDM plays the leading role to ensure economic advancement in their areas of jurisdiction. However, due to lack of resources, CHDM cannot afford to do this alone. It has established partnerships with the private sector, community-based organisations, non-governmental organisations or other municipalities as mechanisms to foster local economic development and effective service delivery.
- CHDM face a number of challenges ranging from poor economic development, huge backlogs in service infrastructure, inability to leverage private sector resources for development and lack of skilled labour;
- local government play an important role in promoting job creation and boosting the local economy. CHDM can ensure this by providing good quality cost-effective services and by making the local area a pleasant

place to live and work, this is a step necessary to ensure sustainable local economic development.

- the existence of a good relationship between government and community, particularly in service delivery, is important, for it involves increasing opportunities for employment, opportunities for citizens to participate in decisions that affect their lives, promoting partnerships between the state and society, and giving citizens a real sense of ownership of development projects.
- the role that a development agencies (Non-governmental organisation or government) can play in boosting people's efforts through the provision of social and technical direction as well as material assistance can not be underestimated. This enables resources, skills and expertise from these organizations to be utilized for the benefit of the localities in economic terms;
- the establishment of a community structure in conjunction with the undertaking of a project attaches local residents to the development initiative. Ordinary people are mobilised and empowered; they gain a sense of ownership and take an interest in the project.

South Africa is on the brink of raising economic growth to unprecedented levels. With all the macro-economic fundamentals in place the country aims to reach a consistent annual economic growth rate of at least 6% per year by 2010. The limitations of a country in which half the population exists in a marginalised economy can retard this long set goal. It is necessary for accelerated and shared growth to address unemployment and poverty which are fundamental challenges to many local economies and hence South Africa's future. Through its Accelerated and Shared Growth Initiative for South Africa (AGSI-SA) the state together with its agencies will become more focused in accelerating growth leading to large-scale social transformation. The latter will have to impact on the large marginalised townships and rural areas, the heart of the economy.

Recommendations

Significant and specific activities are needed to promote economic growth because development needs to be comprehensive in nature and poverty needs to be understood as a multidimensional phenomenon which cannot be simply understood as requiring only one sector, but in partnership with other private, community-based or non-governmental organizations as well as other public sectors.

A supportive and stable policy environment is required, including: national/state laws and policy which clearly and specifically empower local authorities, define their powers and duties, encourage interaction outside of the public sector, provides adequate financial support and training and allow for external support/advice. Creating an enabling environment in which businesses can flourish is essential, especially for small operators and many laws enacted have had a disabling effect on small businesses, increasing the complexity of their establishment and operations. Stability in policy and politics is critical in development.

Associated with this is the need to recognise the fundamental importance of the small/informal sector in the economy and to support its development as much as possible, specifically, Small Micro Medium Entrepreneurs, Community-based Organisations and Black Economic Empowerment companies.

In the light of the above and the results of the study, the following recommendations are presented:

- national and provincial government must support all district and metropolitan municipalities to prepare and implement LED strategies that are aligned with revised IDPs;
- provinces must support all district and metropolitan municipalities by prioritizing LED interventions in the Provincial Growth and Development Strategy;

- a draft National framework for LED, including policy guidelines and strategies have been developed by DPLG but they must be implemented rigorously in alignment with ASGI-SA across rural and urban municipalities by focusing on the following areas;
 - a) improve market and public confidence in municipalities
 - b) identify and exploit the comparative advantage of the municipality, for instance livestock farming in the Chris Hani region must be capitalized
 - c) intensify enterprise support, and
 - d) introduce sustainable community investment.
- the draft LED Framework must be implemented through mobilization of key sets of LED related capacity, this include:
 - a) deployment of experienced economists, development economists and planners in selected municipalities. Identification of high level foreign and a dedicated strategic leadership program for municipal managers and senior municipal officials;
 - b) conduct national level economic analysis of District and Metro areas;
- there is need to strengthen national coordination for long-term economic development planning, that will, inter alia, support LED across South Africa;
- urban municipalities need special attention and must be supported to understand their unique LED role in contributing to the national economy. Specific interventions must include;
 - a) focusing on making urban land markets work for the poor;
 - b) promoting more competitive city business environments and facilitating the movement of information, people and products within and between cities;
 - c) promoting appropriate economic integration zones, the global city region concept and facilitating the global role of cities through a national trade and investment strategy.

- review of procurement procedures to permit informal business to access municipal contracts and encouraging large business to source locally including SMMEs and informal sector;
- municipalities should offer subsidised training and skills development to the historically disadvantaged and its employees;
- municipalities must as well support to investors to use their corporate social investment fund in ways relevant to disadvantaged people/informal economy;
- support for adult and functional literacy programmes, skills training, training in entrepreneurship and marketing;
- there must be ensured support for agriculture for food security and incomes in both rural and urban areas and promotion of local markets for the community products;
- capacity-building and support for community-based organisations focusing in undertaking participatory planning processes to obtain views of local people on economic priorities and strategies, as well as assessing potential economic opportunities in the municipal areas;
- municipalities must be encouraged to devote realistic budgets and staff to LED Units, and LED services if results are to be attained. LED services and projects also need to be adequately financed; and
- municipal policies, regulatory and fiscal environment must be refined and strengthened for local economic development and giving greater attention to the establishment of municipal service partnerships.
- CHDM needs to promote collective marketing strategy incorporating all the attractions and activities in the municipality and neighbouring areas as this would create awareness of the available tourist attractions in the area, it also changes negative perceptions about the municipality and Increase in volumes of tourists to CHDM as a whole; and
- CHDM should improve attractiveness of the area, provide reliable and dependable infrastructure and services, potential investors need to be

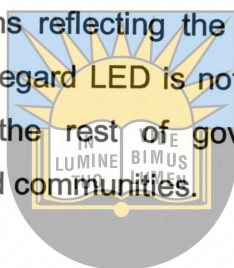


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convinced that they do not have to worry about poor infrastructure and service delivery; and

- In terms of poor skills, the municipality needs to provide more skills/training institutes that will help the youth secure employment either outside or inside the municipality.

LED is one of the five key performance areas (KPA) for Local Government in the implementation plan. The approach to LED is based on a joint government effort reflected in the policy shift approved by Cabinet - district and metropolitan IDPs are to become local expressions reflecting the synergised inputs of all three spheres of government. In this regard LED is not just about what municipalities do, but more critically what the rest of government does together with municipalities, private organs and communities.



Concluding remarks

It is critical that local governments initiate defined monitoring and evaluation programmes to gauge the success of their LED initiatives. This should be based on both financial criteria and social impact assessment. Local Economic Development gives local government, the private sector, the not-for-profit sectors and the local community the opportunity to work together to improve the local economy. It aims to enhance competitiveness and thus encourage sustainable growth that is inclusive.

Through a developmental approach, government has a decisive and unapologetic role to play in shaping the economic destiny of our country. Local Economic Development is an outcome of actions and interventions resulting from local good governance and the constant improvement and integration of national priorities and programs in local spaces. It should be noted that promoting robust and inclusive local economies requires concerted, coordinated action of all spheres and sectors of government centred on the application and localisation of

the principles espoused in the National Spatial Development Perspective (NSDP).

After all, it is the private companies, including social enterprises and cooperatives that form the heart of the economy and have a crucial role to play as partnerships with public and community role players that will ultimately stimulate robust and inclusive local economies. Locally owned appropriate solutions and strategies must emerge to support national frameworks in both rural and urban municipalities and should promote sustainable development and sustainable human settlements.

Local initiative, energy, creativity, assertive leadership and skills will ultimately unlock the latent potential in local economies and will shape local spaces. This is so because 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. The State will be more vigorous in creating an enabling environment for individuals, businesses and communities to organise themselves take control of their destiny and work towards economic development.

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APPENDIX A

Letter of requisition



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University of Fort Hare
Department of Public Administration
P. Bag X1314
Alice, 5700

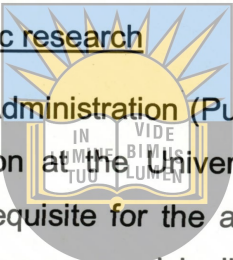
26 June 2007

The Municipal Manager
Chris Hani District Municipality
Private Bag X7121
Queenstown, 5320

Dear Sir,

Re: Request to conduct an academic research

I am Lennox Nyama, a Master of Administration (Public Administration) Degree; in the Department of Public Administration at the University of Fort Hare. I am currently undertaking a research as a pre-requisite for the above mentioned degree. I hereby request to conduct this research in your municipality. Be assured this information is strictly for academic purposes and your privacy, anonymity and confidentiality is guaranteed.



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The focal area of the study is based on an Assessment of the impact of the Democratisation of Public Management Approaches through Municipal Service Partnerships (MSPs) on Local Economic Development (LED).

I will be looking forward to your favourable response.

Yours faithfully



Lennox Nyama.

APPENDIX B

Permission to conduct research



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CHRIS HANI DISTRICT MUNICIPALITY

IPED DEPARTMENT



CHRIS HANI
DISTRICT MUNICIPALITY

TEL: 045- 807 4808
FAX: 045 – 807 4820
Email: xhlati@chrishanidm.gov.za

Ref: LED
Enq: Fundiswa

To: Mr. L Nyama
University of Fort Hare

PRIVATE BAG X 7121
QUEENSTOWN
5320
03 August 2007



Dear Sir

University of Fort Hare

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Research request granted

We are pleased as Chris Hani District Municipality to receive your interest in conducting a research in our municipality. It is with pleasure to inform you that you are welcome to conduct a research.

The Municipality will be glad if the information provided is treated with strict confidentiality and be used only for your academic purposes.

Yours faithfully

M. MBAMBISA
MUNICIPAL MANAGER