

Local Economic Development Agencies in South Africa – six years later

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1. Introduction

A partnership between national and international stakeholders led to the establishment of four Local Economic Development Agencies (LEDAs) in four South African provinces between 1999 and 2003. The international players included the United Nations Development Program (UNDP), United Nations Office for Project Services (UNOPS) and the Italian government, who provided the funding. At the national level the Department of Trade and Industry through the Enterprise Development Unit, provincial Departments of Economic Affairs and local municipalities were involved.

LEDAs are participatory structures established at local level to encourage sustainable economic growth, income generation, employment and decent jobs. The focus is on small entrepreneurs and the poor with entrepreneurial potential. The target areas include four district municipalities and eighteen local municipalities in the provinces of Limpopo, Mpumalanga, Northern Cape and the Eastern Cape. The aim of this paper is to give a historic overview of the establishment of these LEDAs, their objectives and to evaluate their track records over the past six years. The South African LEDAs are also compared to their international counterparts in order to determine whether the South African experience differs from the international one.

2. LEDAs internationally

Rural development led by communities is regarded as the answer to disadvantaged regions (Herbert-Cheshire and Higgins, 2004). This “bottom-up” approach is widely implemented in the US, Europe and Australia. In this way local communities become participants in their own development rather than the objects of development. Community driven initiatives linked to ecotourism and community hospitality are ways in which communities express their desire to conserve local customs and traditions and earn a living at the same time (Simon, 2000).

Failure of the traditional “top-down” development policies led to the development of the “Local Economic Development” (LED) approach (ILO, 2003:2). Other key contributors are the effects of globalization and a new trend towards decentralization. LED is described by Canzelli (2001:9) as a process where local actors shape and share the future of their territory. Nel (2000: 149) admits that there is no universally accepted definition of LED, and then identifies several key components that should be part of any definition; namely: subnational action, local labour market and an applied economic development strategy to address site specific needs. Local Economic Development Agencies (LEDAs) is a recent practical manifestation of this LED approach. LEDAs also portray the increasingly involvement of international institutions committed to LED. Among them are the UNDP, International Labour Organization (ILO), Food and Agricultural Organization of the United Nations (FAO), UNOPS, Canadian International Development Agency (CIDA), United States Agency for International Development (USAID), Danish International Development Agency (DANIDA), The German Agency for Technical Co-operation (GTZ), Italian Cooperation, German Cooperation, the European Union (EU), Dutch Cooperation and the World Bank (ILO, 2003:10).

LEDAs are “*independent organizations, shaped by public and private institutions, with the aim of implementing strategies of shared territorial development, with particular emphasis on favouring access for the most marginal portions of a population to opportunities of income and decent employment*” (ILO, 2003:2). LEDAs are designed to meet the demands of the clients, usually small, micro and medium enterprises (SMME’s), with the supply of financial (loans) and non-financial services (promotion, technical assistance, employee training, management of projects). In order to do so successfully LEDAs are expected to develop and customize their own products/ services according to the client’s needs.

LEDAs have their origins in Europe during the late 1950’s (www.ilsleda.org) in an attempt to counter economic problems experienced as a result of business cycles. At present there are more than 300 agencies worldwide. Since the late 1980’s international cooperation programmes regard LEDAs as efficient instruments in promoting sustainable local economic development. In 2003 36 LEDAs existed in Latin America, Africa and Eastern Europe, supported by the ILO, UNDP, UNOPS, Italian Cooperation and the European Union. The first one to be established by this international cooperation was in the Granada Region in Nicaragua, 1991. The international experience since 1991 has shown how LEDAs address a variety of problems like the fight against social exclusion and poverty, reconstruction and the development of economies, development of micro and small businesses and the conversion to the market economy.

Access to basic services like health and education is one of the main tools in addressing exclusion and poverty. However, a sustainable solution to these problems is only reached once permanent income is generated for poor families. After periods of armed civil conflict LEDAs have offered development opportunities benefiting the population economically and helping them to realize that working together is in their own interest as a community. LEDAs are especially equipped to help small and micro businesses in areas where they lack expertise and influence. Many Eastern European regions are battling with the challenge to convert to a market economy in the aftermath of bloody armed conflicts. Instead of relying on foreign investments, LEDAs have assisted in identifying opportunities of local investment and created modern small local business people.

LEDAs operating in different parts of the world try to address different problems. In the Balkan region problems linked to the transition to the market economy and the movement away from big conglomerate industrial economies to small enterprises have been addressed successfully. Examples of such LEDAs are found in Bosnia-Herzegovina, Croatia, Albania and Serbia. In Africa (LEDAs in Mozambique, Angola and South Africa) extreme poverty is on the agenda. This poses the challenge of empowering local people especially those marginalized from the regional and national economy. In Central America efforts are made to include vulnerable people into the economy and support local actors to gain from local resources (Canzanelli and Dichter, 2001).

Generally at the head of a LEDA would be a general assembly, then a board of directors, followed by the local manager and his team. This structure allows for participation by local actors in the economic development of their region, e.g. local

bodies, local governments, national public institutions non-governmental organizations, professional associations, etc.

3. LEDAs in South Africa

3.1 Background

According to Nel LED in South Africa is practiced in South African cities since the 1900's. Their efforts were mainly focused towards industrial development. Interest in LED grew since 1990. Some impressive results were recorded by LED at micro level although a shortage of skills, limited number of non-governmental organizations (NGO's), resource constraints, lack of strategic guidance, facilitation and role models impede on its application (Nel, 2000:153).

In October 1995 the (UNDP) established a trust fund for sustainable social development, peace and support to countries in special situations (SEDA, 2005:1). In February 1996 the General Directorate for the Development Cooperation of the Italian Ministry of Foreign Affairs committed financial support to a programme aimed at sustaining the South African government policy for the development of SMMEs. The South Africa government has been described as one of the most committed to LED policies in the world (Canzanelli and Dichter, 2001). In August 1998 the South African and Italian governments signed a memorandum of understanding and appointed UNOPS to implement the SEHD program at local level (SEDA, 2005:1). The SEHD's objective was stated as *"The creation of permanent jobs for the most disadvantaged population, through the promotion of, and support to micro, small and medium enterprises in the framework of sustainable local economic development"* (SEDA, 2005:1).

In January 1998 the Italian government pledged LIT 17 billion to UNDP/UNOPS for the planning and implementation of the Small Enterprise and Human Development (SEHD) Programme in South Africa (UNDP, 2004:206). Thus the SEHD Programme was initially funded by the Italian Government through the "UNDP Trust Fund for Sustainable Social Development, Peace and Support to Countries in Special Situations" and UNOPS acted as the implementing agency. The first operational plans were approved on an Italy/South Africa/ UNDP-UNOPS meeting in Pretoria on 5 May 1999. In June 1999 the headquarters of the programme were located in the International Labour Organization (ILO) offices in Pretoria. In November 1999 the first operations were launched. The three parties met again on 16 February 2001 where the progress of first phase of the programme was positively evaluated and extended to June 2001. In February 2002 the Italian government promised UNDP/UNOPS more funds for the second phase of the operations. The programme was assessed during September and October of 2003 and the conclusion was that *"the programme had made a significant contribution to the country's public development policies and achieved satisfactory results in terms of technical cooperation and economical development strategies"* (UNDP, 2004: 206). It was pointed out that due to delays in funding LEDAs had only just began to operate and produce results.

Coordination of the SEHD Programme in South Africa was delegated to the DTI. During 2001 the South African Government stated that the DTI intend to extend the SEHD model to other provinces as well and see local economic development as a

important vehicle to promote small and medium sized enterprises (UNDP, 2004: 206). The DTI created a directorate for Local Economic Development (LED) towards the end of 2002 and appointed the operational coordinator of SEHD as national manager (UNOPS, 2003). LED strengthens relationships between the DTI and provincial departments of economic affairs and tourism and in this way increased the national presence in the provinces.

The target areas of the SEHD programme includes 18 local municipalities and four district municipalities in the Eastern Cape, Limpopo, Mpumalanga and the Northern Cape. The HDI (Human Development Index) is lower than the national average in all four of these provinces. Except for the Northern Cape, the unemployment rates in these provinces are higher than the national level. The population densities range from 5.2 people per square kilometer in Siyanda to 105.1 in OR Tambo (SEHD, undated).

3.2. The existing four South African LEDAs

The South African LEDAs are established as Section 21 non-profit companies. Four such LEDAs were consolidated by the SEHD Programme at the end of 2003 (SEHD, undated). The four agencies are:

- LOREDA (Lower-Orange Economic Development Activator) (or SIYEDA), located in the Siyanda district municipality of the Northern Cape Province with offices in Upington.
- NKEDU (Nkomazi Economic Development Unit) located in the Nkomazi local municipality of Mpumalanga; offices in Malelane.
- ORTEDA (OR Tambo Economic Development Agency) in the OR Tambo district municipality of the Eastern Cape; offices in Umtata.
- VHEDA (Vhembe Economic Development Agency) located in the Vhembe district municipality of Limpopo; offices in Khumbe–Lwamondo, Thohoyandou.

LOREDA was founded in February 2001 (UNDP, 2003: 219) and registered as Section 21 company on 26 June 2002 (Companies and Intellectual Property Registration Office) with enterprise number 2002/015051/08. On 16 September 2002 UPGRO, the local Business Service Centre in Upington, was taken over by LOREDA (The Bulletin online, 2003). According to the current general manager of SIYEDA LOREDA is operating as SIYEDA from 16 May 2003.

Siyanda district municipality in the Northern Cape includes six local municipalities of Kai !Gariep, !Khara Hais, !Kheis, Kgatelopele, Mier, Tsantsabane with Upington as the capital. Siyanda covers the mid-northern section of the Northern Cape to the south of the Botswana boarder. It is one of the sparsely populated areas in South Africa. The central parts of Siyanda consist of semi-desert areas and are used for extensive livestock farming (Siyanda IDP, 2004). A large variety of game is found on private and conservation areas in the region. Irrigation farming takes place along the Orange river and the area is world renowned for its table grapes. The Kgalagadi Transfrontier Park, Spitskop Nature Reserve, Augrabies Falls National Park and the desert landscape attract a lot of tourist each year. These main attractions coupled with the

vast distances tourists have to travel generate a positive spillover effect on other small-scale tourist activities in the district.

NKEDU was officially inaugurated on 29 September 2001 (UNDP, 2004: 217). It was registered as Section 21 company on 26 June 2002 with enterprise number 2002/015047/08. The Nkomazi local municipality form part of the greater Enhlanzeni district municipality in Mpumalanga. Nkomazi lies approximately 350 km east of Gauteng in a wedge of land between the Kruger National Park, Mozambique, Swaziland and the municipalities of Mbombela and Umjindi (Nkomazi, 2003: 4). Nkomazi is a combination of two vastly different areas. In the south (former Kangwane) lies a rural underdeveloped region in sharp contrast to the northern section (Onderberg) with its highly commercial irrigation farming activities and well developed infrastructure. Nkomazi is the heartland of the Maputo Corridor. This upgrade transport network links Mpumalanga and Gauteng to the nearest port in Maputo. The new airport 20 km north east of Nelspruit and 20 km from the Kruger National Park strengthens the transport infrastructure even further and has a significant influence on the area. The community service sector is the main contributor to the GGP of Nkomazi, followed by agriculture, manufacturing and trade. Agricultural products include cattle, sugar cane, bananas, mangoes and citrus. A number of wild reserves provide tourism opportunities.

ORTEDA was founded in 2002 and registered as Section 21 company on 1 October 2003 with enterprise number 2003/024417/08 (Companies and Intellectual Property Registration Office). The OR Tambo district municipality in the Eastern Cape includes seven local municipalities: King Sabata Dalinyebo, Mbizana, Mhlontlo, Ntanabkulu, Nyandeni, Port St Johns, Qawukeni. Offices in Umtata. The OR Tambo district municipality is located to the east of the Eastern Cape Province on the Indian Ocean. The district lacks major economic base. The government sector is the largest contributor to the GGP. Umtata is the largest town with an economy dependent on wholesale and retail. Agriculture is predominantly subsistence. A lack of infrastructure hinders potential development. The area is predominantly rural with spots of arable land. Some of the products include forestry, tea, eel and shellfish. Along the coastline Port St Johns, Coffee Bay and the Hole in the Wall offer tourist attractions.

VHEDA was founded in 2002 (UNOPS, 2004) and registered on 3 December 2002 as Section 21 company with enterprise number 2002/030753/08 (Companies and Intellectual Property Registration Office). The Vhembe district municipality includes four local municipalities in Limpopo: Makhado, Mutale, Musina, Thulamemela. Vhembe's economy is mainly built on trade, mining, agriculture and services (including tourism). Trade and catering is important in the municipalities of Makhado and Musina. There is a lot of unutilized irrigation opportunities while game (targeting the eco-tourism market) is replacing cattle. The northern section of Vhembe is dedicated to nature and wildlife conservation.

3.3 Operational track record

The initial stages of the SEHD programme focused on training. Local actors (LEDA personnel, representatives of municipalities, prospective LEDA clients, etc) received

training regarding corporate governance, global and local competitiveness, financial management and the formulation and evaluation of strategic projects.

From March 1999 onwards several strategic development projects were identified in the areas covered by the LEDAs to promote as investment opportunities to interested investors. Forty six of these projects were evaluated, developed and classified through a study by the Centre for Development Support of the Free State University (CDS). The criteria for such projects were set out as:

- Projects that are strongly lined to the economic mainstreaming process of a country or region producing positive effects in terms of growth, exports, value added, employment and income.
- Projects that are functionally integrated with a commodity system of value chain (preferably orientated to exports) generating economies of scale.
- Projects that have positive profit rates in terms of Net Present Value, Internal Rate of Returns and Benefit/Cost Relationship.
- Projects that involve and support the final and intermediate target groups of the SEHD programme.
- Projects that are environmentally friendly (CDS, 2003).

The CDS study ranked the projects according to the above criteria and the following is a description of the three highly ranked proposed projects per province. In the Northern Cape the Riemvasmaak Agricultural Project had strong links with the existing grape production in Siyanda. The climate is ideal and the aim is on export. However, the community experience severe transport problems due to the lack of a bridge across the Orange River. The Wine Cellar project aspires to provide an opportunity for small farmers to deliver grapes to a wine cellar – with the prospects of exporting wine. The Floriculture project proposed the cultivation of flowers for the export market. The Upington airport, used for fruit exports, makes this a viable option.

In general, the Eastern Cape projects were adjudicated to be in line with the needs of the community, but did not meet the requirements of investors looking for return. The Gcalekaland Cultural Village proposed the selling of beads and crafts. Their location close to a renowned hotel implied an existing stream of tourists and potential buyers. A carpentry project planned to use local wood for furniture production.

The Limpopo projects, like the Northern Cape ones, had strong agricultural links. A proposal for the cultivation and production of Spurilina was highly ranked, together with another project focusing on banana production. The Tiakeni Beads Work Project planned to sell claypots, beads, mats and woodcarvings to tourists.

The Mpumalanga projects focused on tourism. Two crocodile farming projects were proposed by Matsamo Crocodiles and the Cinimxelo Crocodile Project respectively. They aimed at attracting tourists and meat and leather processing. The Cappeo Project proposed the manufacturing of wood products. In summary it is clear that these projects are all linked to local strengths and needs and mainly concentrated in the agricultural and tourism sectors.

3.4 Local Enterprise Development Fund (LEF)

Canzanelli (2001:41) describes access to credit, especially for the most vulnerable part of the population, as one of the main constraints to the promotion of development. Banking systems around the world require collateral/guarantees and focus on credit recovery. But unfortunately the people most in need of this credit often do not qualify. Therefore the need for a LED fund to kick-start development at local level is stressed by authors in this field (Nel, 2000:155). Two of the two most successful LEDAs, Jinotega in Nicaragua and ADEVAS in Ocotepeque, Honduras each has an efficient credit fund with credit recovery rate as high as 95% (Jinotega) and 90% ADEVAS (Canzanelli and Dichter, 2001).

In order to address this need for funding the Local Enterprise Development Fund (LEF) was created in December 2002 by an agreement between SEHD and ABSA Bank (UNDP, 2004:212) as an integral part of the South African SHED programme. The Italian Government contributed R16 million to this fund and the four relevant provincial governments each pledged R4 million (SEDA, 2005: 2). ABSA also undertook to provide loans to the value of USD4 500 000 (UNOPS, 2003). According to certain sources the initial idea was that the LEDAs should have access to these funds and be able to lend it to SMME's at 3% interest.

Minutes from discussions between SEDA personnel and LEDAs (NKEDU, 11 February 2005, Nelspruit) reveal that UNOPS committed to contribute R16 million, but the money has not yet been released. If this is done the fund would eventually add up to R27 450 000 with R11 450 000 contributed by provincial departments of economic affairs and tourism (R3.5 million by Mpumalanga and R3million by Limpopo). Until now, it was nearly impossible for the LEDAs to deliver any promises regarding financial support via LEF. The fact that this fund has until now been unavailable to existing and new small enterprises, led to mistrust of the LEDAs. The SEDA operational report states that *"the most critical challenge facing the SEHD Program is the financial component, which has not yet been finalized and made available to the Entrepreneurs as originally promised"* (SEDA, 2005: 5).

Currently UNOPS, Khula, the DTI, provincial governments and LEDA boards of directors are working towards settling this matter and investigating ways in which the LEF can be operated within a new national micro-finance framework. There are suggestions that the disbursements be made through development corporations rather than through the banking system, provided that it happens within the South African legislative framework and that the agencies obtain the necessary licences.

3.5 Recent Developments

The SEHD, under the UNOPS banner shut down operations in March 2004 (SEHD, undated). In April 2004 the DTI allocated the SEHD programme to the NAMAC Trust. A thorough assessment of the operational aspects was conducted as a starting point of the incorporation into the existing organization (SEDA, 2005:1). The Minister of Trade and Industry launched the new Small Enterprise Development Agency (SEDA) on 13 December 2004. SEDA, as public entity and part of the DTI, supports small business. Other agencies, fitting into the SEDA mandate and also functioning under the DTI banner, like Community Public Private Partnerships (CPPP), NAMAC and Ntsika have been incorporated into SEDA creating a service

delivery network for small businesses throughout South Africa. (Ntsika Enterprise Promotion Agency is an agency of the DTI facilitating non-financial support and business development services to small medium and micro enterprises. Khula Enterprise Finance Limited facilitates access to credit for SMMEs.) The mandate of SEDA is spelt out in an open letter from the CEO to all stakeholders as follows: *“SEDA’s mandate is broader than the support, promotion and development of small enterprises. The mandate includes the support and promotion of cooperative enterprises to reach a greater variety of enterprises, particularly those located in rural areas. This support of alternative forms of enterprises will be an important way to facilitate the integration of the second into the first economy.”*

Currently, the existing four South African LEDAs thus report directly to SEDA. The salaries of the LEDA personnel are also paid by SEDA. In order to determine first-hand what was going on in these LEDAs SEDA personnel paid site visits to these four offices.

At July 2005 SIYEDA consisted of a general manager, financial manager (post vacant – functions fulfilled by general manager), business development manager, two business development officers, personal assistant and a general worker. During February 2005 the NKEDU team consisted of a senior manager, financial analyst, secretary and a vacant position of business analyst (SEDA, 2005). ORTEDA consists of four staff members: senior manager, financial advisor, business advisor and secretary. VHEDA is currently headed by a senior manager, with a secretary (position vacant), business analyst, financial analyst and information system specialist (vacant). There are plans to extend this to three separate units, business development unit, finance unit and administration unit for better service delivery. VHEDA was successfully registered for VAT, the offices renovated (painted) and office equipment upgraded. Of the four LEDAs only VHEDA had a web site up and running on 24 August 2005 (available at http://www.brainsa.co.za/Style26/Designer_6.asp?p_ID=71) while all three the others’ were under construction.

From the various weekly reports it is clear that the LEDAs have a certain established presence within their respective communities and are indeed active. They are helping to identify viable business opportunities, assisting with the drawing up of feasibility studies and training local players in the development field. They are marketing their services through the media, especially radio. NKEDU uses the national radio station Ligwalagwala FM and local and provincial printed media while SIYEDA undertakes roadshows and is supported by a local radio station. Regular meetings take place with various local stakeholders (municipalities, community representatives: youth groups, news papers).

Despite the unavailability of the LED funds, LEDAs succeeded in obtaining several funding for some of the initially identified strategic projects as well as other business opportunities. This funding came from banks, through the normal channels, and various national development agencies. Department of Public Works is busy with the construction of the bridge for the Riemvasmaak community. There are indications that NKEDU is at relative small scale already making use of the LED funds to assist entrepreneurs (SEDA, 2005), however only from the South African contributions.

SEDA is currently striving to get all four LEDA offices fully functional and able to meet the expectations of local people while they also adhere to Public Finance Management Act (PFMA) complaints, legal requirements and reporting. SEDA will help LEDAs with technical and financial resources for operational purposes. Boards and senior managers were thoroughly briefed about corporate governance and PFMA policies, reporting systems were put in place and offices upgraded. Certain management tools are to be phased in, like tools for planning, reporting monitoring and evaluation. There are plans to expand LEDAs or local branches of SEDA to local districts in other provinces once the existing LEDAs are functioning satisfactory.

4 Looking into the future

According to the ILO (2003:9) of the 36 LEDAs established until 2003 none ceased to function when initial financial help from donors came to an end. If this will be the case in South Africa remains to be seen. Under the new SEDA management there is no reason why the existing four LEDAs should stop functioning. There are, however, plans to operate as local SEDA branches rather than the initially registered Section 21 companies.

Canzanelli (2001) lists five requirements for the creation and growth of smme's, namely availability of human resources, availability of external economies, legal and fiscal regulations, access to credit and access to technology. If the access to credit is resolved satisfactory and all the legal requirements are met, the LEDAs can make a significant contribution to local economic development in their respective municipalities.

Honest efforts have to be made to regain the trust of communities, trust that was lost when LEDAs could not deliver on the financial promises. One last issue to deal with is the cooperation and co-existence of these development agencies alongside other regional development authorities that are active in these regions. Among them are the Mpumalanga Development Initiative, Mpumalanga Manufacturing Advisory Centre, Eastern Cape Development Corporation, Limpopo Manufacturing Advisory Centre, Limpopo Economic Development Enterprise.

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LIST OF ACRONYMS/ABBREVIATIONS

CDS	Centre for Development Support of the Free State University
CIDA	Canadian International Development Agency
CPPP	Community Public Private Partnerships
DANIDA	Danish International Development Agency
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
GTZ	The German Agency for Technical Co-operation/ Deutsche Gesellschaft für Technische Zusammenarbeit
ILO	International Labour Organization
ILS-LEDA	International Liason Services for Local Economic Development Agencies
KHULA	Khula Enterprise Finance
LBSC	Local Business Service Centre
LED	Local Economic Development
LEDA	Local Economic Development Agencies
LEF	Local Enterprise Development Fund
LOREDA	Lower-Orange Economic Development Activator
MAC	Manufacturing Advisory Centre
NAMAC	National Coordinating Office if the MAC centres
NGO	Non-governmental Organizations
NKEDU	Nkomazi Economic Development Unit
NTSIKA	Ntsika Enterprise Promotion Agency
ORTEDA	OR Tambo Economic Development Agency
PFMA	Public Finance Management Act
SEDA	Small Enterprise Development Agency
SEHD	Small Enterprise and Human Development
SIYEDA	Siyanda Economic Development Agency
SMME	Small, micro and medium enterprise
UNDP	United Nations Development Program
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
VHEDA	Vhembe Economic Development Agency