Economic Development in Municipalities: KZN Case Studies synthesis report

Synthesis Report (A) of findings and insights

With research support by

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## TABLE OF CONTENTS

1. **Introduction** .................................................................................................................................................. 1  
   1.1. Problem statement ................................................................................................................................. 1  
   1.2. Chapter description ............................................................................................................................... 2  

2. **Case study approach** ................................................................................................................................. 3  
   2.1. Starting point .......................................................................................................................................... 3  
   2.2. Project methodology ............................................................................................................................. 4  
   2.2.1. Case study report structure ............................................................................................................... 6  

3. **EThekwini Metropolitan Municipality** ....................................................................................................... 7  
   3.1. Municipal approach to the economic development function ............................................................... 7  
   3.2. Background and economic profile ....................................................................................................... 7  
   3.3. Evolution and history of economic development within the municipal area ....................................... 9  
   3.4. Local economic policy environment .................................................................................................... 9  
   3.5. Networks and institutional arrangements ........................................................................................... 10  
   3.6. Organisational review .......................................................................................................................... 11  
   3.7. Trends and findings summary .............................................................................................................. 14  

4. **UMhlathuze Municipality** .......................................................................................................................... 15  
   4.1. Municipal approach to the economic development function ............................................................... 15  
   4.2. Background and economic profile ....................................................................................................... 15  
   4.3. Evolution and history of economic development within the municipal area .................................... 16  
   4.4. Economic policy environment ............................................................................................................ 18  
   4.5. Networks and institutional arrangements ........................................................................................... 18  
   4.6. Organisational review .......................................................................................................................... 19  
   4.8. Trends and findings summary .............................................................................................................. 22  

5. **Newcastle Municipality** ........................................................................................................................... 23  
   5.1. Municipal understanding of economic development function ......................................................... 23  
   5.2. Background and economic profile ....................................................................................................... 23  
   5.3. Evolution and history of economic development within the municipal area .................................... 24  
   5.4. Economic policy environment ............................................................................................................ 25  
   5.5. Networks and institutional arrangements ........................................................................................... 25  
   5.6. Organisational review .......................................................................................................................... 26  
   5.8. Trends and findings ............................................................................................................................... 29  

6. **UMgungundlovu District Municipality** ..................................................................................................... 30  
   6.1. Municipal understanding of economic development function ......................................................... 30  
   6.2. Background and economic profile ....................................................................................................... 30  
   6.3. Evolution and history of economic development within the municipal area .................................... 31  
   6.4. Economic policy environment ............................................................................................................ 32  
   6.5. Networks and institutional arrangements ........................................................................................... 32  
   6.6. Organisational review .......................................................................................................................... 33
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.8. Trends and findings</td>
<td>36</td>
</tr>
<tr>
<td>7. Synthesis</td>
<td>38</td>
</tr>
<tr>
<td>7.1. Discussion</td>
<td>38</td>
</tr>
<tr>
<td>7.2. Synthesis framework</td>
<td>39</td>
</tr>
<tr>
<td>7.3. Synthesis narrative</td>
<td>40</td>
</tr>
<tr>
<td>8. Case study summary and trends synthesis</td>
<td>41</td>
</tr>
<tr>
<td>8.1. History and evolution of the local economy</td>
<td>41</td>
</tr>
<tr>
<td>8.2. Policy context</td>
<td>42</td>
</tr>
<tr>
<td>8.3. Networks and institutions</td>
<td>43</td>
</tr>
<tr>
<td>8.4. Organisational considerations</td>
<td>44</td>
</tr>
<tr>
<td>8.5. Strategic Advantages</td>
<td>45</td>
</tr>
<tr>
<td>9. Findings and insights</td>
<td>47</td>
</tr>
<tr>
<td>9.1. Project findings</td>
<td>47</td>
</tr>
<tr>
<td>9.1.1. Findings related to the conceptual approach towards the economic development function</td>
<td>47</td>
</tr>
<tr>
<td>9.1.2. Findings relating to the municipal structures</td>
<td>48</td>
</tr>
<tr>
<td>9.1.3. Findings relating to the institutional systems that support the economic development function</td>
<td>49</td>
</tr>
<tr>
<td>9.1.4. Problem statement refinement</td>
<td>50</td>
</tr>
<tr>
<td>9.2. Project insights</td>
<td>50</td>
</tr>
<tr>
<td>9.2.1. Insights related to the conceptual approach towards the economic development function</td>
<td>50</td>
</tr>
<tr>
<td>9.2.2. Insights relating to the municipal structures</td>
<td>51</td>
</tr>
<tr>
<td>9.2.3. Insights relating to the institutional systems that support the economic development function</td>
<td>52</td>
</tr>
<tr>
<td>9.2.4. Concept synthesis</td>
<td>52</td>
</tr>
<tr>
<td>10. Recommendations</td>
<td>54</td>
</tr>
<tr>
<td>10.1. How can the economic development function be redefined?</td>
<td>54</td>
</tr>
<tr>
<td>10.2. How can municipalities development partnerships to support the economic development function?</td>
<td>54</td>
</tr>
<tr>
<td>10.3. How can municipalities effectively integrate the economic development function?</td>
<td>55</td>
</tr>
<tr>
<td>11. Way forward</td>
<td>56</td>
</tr>
</tbody>
</table>
TABLE OF FIGURES

Figure 1: Case study municipalities in the Kwa-Zulu Natal Province ................................................................. 1
Figure 2: Case study methodology ....................................................................................................................... 5
Figure 3: The four-pronged approach to case study development ........................................................................ 6
Figure 4: ETekwini locality map (Demarcation Board, 2016) ................................................................................ 7
Figure 5: Percentage contribution to municipal GDP by sector (IDP, 2015: 44) ...................................................... 8
Figure 6: ETekwini high-level organogram indicating organisational clusters (ETekwini, 2016) ....................... 12
Figure 7: Economic Development and Planning Cluster organogram ............................................................... 13
Figure 8: UMhlathuze boundaries and locality (Demarcation Board, 2016) ......................................................... 15
Figure 9: Economic activity by sector, UMhlathuze 2001-12 (Global Insight 2013 in uMhlathuze IDP, 2015) ...... 17
Figure 10: High-level organogram UMhlathuze Municipality ............................................................................ 20
Figure 11: City Development Department organogram, UMhlathuze Municipality ........................................... 20
Figure 12: Locality map, Newcastle Local Municipality (Demarcation Board, 2016) ............................................. 23
Figure 13: High-level municipal organisational structure, Newcastle Municipality ............................................ 26
Figure 14: Economic development department organisational structure, Newcastle Municipality ............... 27
Figure 15: Local economic development unit organisational structure, Newcastle Municipality .................... 27
Figure 16: Map of UMgungundlovu District Municipality (Demarcation Board, 2016) ......................................... 30
Figure 17: High-level organisational structure, UMgungundlovu District Municipality ...................................... 34
Figure 18: Organisational structure of the Economic Development and Tourism Division, UMgungundlovu District Municipality ...................................................................................................... 34
Figure 19: Approach to case study development ............................................................................................... 41
Figure 20: Percentage of total municipal staff capacity and finances allocated to LED units (Data obtained from LED departments, 2016) .................................................................................. 45
Figure 21: Project problem statement review ................................................................................................... 50
Figure 22: Concept synthesis ............................................................................................................................. 53
# TABLE OF TABLES

Table 1: LED SWOT Analysis (IDP, 2015/16) ................................................................................................................. 11  
Table 2: Organisational capacity status quo – EDI & BSTM Units (Departmental organograms) ................................. 13  
Table 3: Organisational capacity status quo, UMhlathuze Municipality ................................................................. 21  
Table 4: Financial overview of the Business Support, Markets and Tourism Unit ...................................................... 21  
Table 5: Organisational capacity status quo, Newcastle Municipality ......................................................................... 27  
Table 6: Financial overview of the Local Economic Development Unit, Newcastle Municipality ................................. 28  
Table 7: Organisational capacity overview, UMgungundlovu District Municipality .................................................. 34  
Table 8: Capacity analysis of the Economic Development Unit, UMgungundlovu District Municipality ..................... 35  
Table 9: Financial overview of the local economic development department, UMgungundlovu District Municipality ........................................................................................................................................... 35  
Table 10: Summary of case studies regarding the history and evolution of the local economies ............................. 42  
Table 11: Summary of case studies regarding the municipal policy and framework context .................................. 43  
Table 12: Summary of case studies regarding networks and institutional arrangements .............................................. 44  
Table 13: Summary of case studies regarding organisational considerations ........................................................... 44
## INDEX

**C**
- COGTA: Department of Cooperative Governance and Traditional Affairs ........................................... 33

**D**
- DBSA: Development Bank of South Africa ..................... 33

**E**
- EDTEA: KZN Provincial Department of Economic Development, Tourism, and Environmental Affairs.... 33

**I**
- IDC: Industrial Development Corporation ................. 33

**K**
- KZN: Kwa-Zulu Natal ......................................................... 1

**L**
- LED: Local Economic Development................................. 33

**N**
- NDP: National Development Plan .................................... 3

**S**
- SACN: South African Cities Network ............................. 1
- SALGA: South African Local Government Association ...... 1

**T**
- TIKZN: Trade and Investment Kwa-Zulu Natal ............. 33
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- UMgungundlovu District Municipality
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1. Introduction

The following report provides the synthesis and outcomes of research done within municipalities in the Kwa-Zulu Natal (KZN) province. The project sought to unpack and understand how these municipalities have understood and institutionalised, the local government economic development function through an analysis of the organisational structures within each municipality.

Commissioned by the South African Cities Network (SACN) and the South African Local Government Association (SALGA), this pilot project is focused on four case studies which were selected for their variation in size, population, and role within the broader spatial economy of the KZN province. The case study municipalities discussed in this report are: eThekwini Metropolitan Municipality, uMhlathuze Municipality, Newcastle Municipality, and uMgungundlovu District Municipality, as per Figure 1 below. The following report concludes in a series of findings and insights which have informed the core content of the three concept notes that are the primary outcomes of this research project.

Figure 1: Case study municipalities in the Kwa-Zulu Natal Province

1.1. Problem statement

As mentioned, this study is focussed on the municipal local economic development function was initiated in response to the trends observed in the sector that current approaches to local economic development are synonymous with short term, small-scale, poverty-alleviation oriented projects. These “traditional” LED projects are important, however, they are often unsustainable and if carried out in isolation, have a limited impact on economic development within municipalities. While valuable, these projects do not reflect the broader economic development objectives of many municipalities. As a result, and through the development of the Integrated Urban Development Framework (IUDF), it is understood that municipalities need to take a more strategic and integrated approach to economic development to facilitate job creation and inclusive economic development. As emphasised by the IUDF, it is understood that the municipal economic development function is critical to unlocking the potential of inclusive economic development to overcome the challenges of inequality and injustice.
1.2. Chapter description

In order to develop a deeper, evidence-based understanding of how each case study municipality has interpreted and responded to the economic development function at the local level, understand the extent to which the problem statement is echoed in the case studies, in order to identify the key considerations and insights emerging from the research, and identify actionable outcomes, this case study synthesis report is structured as follows:

- **Case study approach:** This introductory chapter serves as a point of departure and provides a rationale for the focus on municipalities by identifying municipal characteristics underpinning the potential for local government to drive economic development. The second part of the chapter provides an outline of the research methodology, as well as the four-pronged approach used to develop each of the case studies.

- **Case study findings:** This section of the report includes summaries of findings in each of the case studies (i.e. eThekwini, uMhlathuze, Newcastle, and uMgungundlovu Municipalities). The summaries of each case study are structured as per the four-pronged approach described in introductory chapter.

- **Case study synthesis:** The aim of this chapter is to provide a comparative discussion of the case studies, seeking to understand similarities and differences between the four municipal categories selected.

- **Overall project findings and insights:** A high-level overview of the key themes, considerations, and insights emerging from the case study findings is presented, synthesised around three core themes.

- **Concept note summaries:** This chapter summaries the intention of each concept note, highlighting key messages to be taken forward out of this study. The final, complete concept notes are attached as addendums to this report.

- **Recommendations:** Based on the evidence-supported findings of the previous chapters, this chapter describes potential opportunities to unlock the potential of economic development in municipalities.

- **Way forward:** This concluding chapter highlights the key actions necessary to take the findings and recommendations forward, to leverage project momentum, and ensure actionable project outcomes.
2. Case study approach

2.1. Starting point

The intention of the project is to review the hypothesis that local governments are well-positioned, from an institutional perspective, to drive economic development within municipalities. This hypothesis echoes the objectives of the Integrated Urban Development Framework (IUDF), in unpacking this hypothesis is critical to IUDF implementation.

As a starting point, it is important to note that the IUDF responds to Chapter 8 of the National Development Plan (NDP) and identifies seven strategic policy levers to support its vision for “liveable, safe, resource-efficient cities and towns that are socially integrated economically inclusive and globally competitive, where residents actively participate in urban life” (IUDF, 2015). These policy levers seek to address spatial transformation of South African cities through improving municipal governance, growth and access to opportunities for residents. The IUDF’s Policy Lever 4 describes “Inclusive Economic Development”, with the goal of moving towards “cities and towns that are dynamic and efficient, foster entrepreneurialism and innovation, which sustain livelihoods, enable economic growth, and generate the tax base to sustain and expand public services and amenities” (IUDF, 2015: 24). As a result, municipalities were the chosen as the focal point of the study.

In unpacking this hypothesis and taking the lead from the policy direction articulated in the IUDF, the following municipal characteristics have been identified and highlighted to offer initial support for the hypothesis that local government is well-positioned to drive economic development:

- **National legislative mandate:** From a legislative perspective, the role of municipalities in exercising the economic development function is described in both the Municipal Structures Act and Municipal Systems Act as follows:

  o **Municipal Structures Act (117 of 1998):** The Municipal Systems Act emphasises that municipalities should focus on facilitating an enabling environment to encourage economic development. Section 84(3) of the Municipal Structures Act notes that: “A district municipality must seek to achieve the integrated, sustainable and equitable social and economic development of its area as a whole by-(a) ensuring integrated development planning for the district as a whole; (b) promoting bulk infrastructural development and services for the district as a whole; (c) building the capacity of local municipalities in its area to perform their functions and exercise their powers where such capacity is lacking; and (d) promoting the equitable distribution of resources between the local municipalities in its area to ensure appropriate levels of municipal services within the area”.

  o **Municipal Systems Act (32 of 2000):** The Municipal Systems Act replaced the Local Government Transition Act. Chapter 5 of the MSA provides details regarding the preparation of municipal integrated development plans, in the form of a five-year plan and annual reviews. As mentioned, the IDP is a critical tool for managing integrated planning in order to support social and economic growth. The Act has been critiqued for not differentiated between metropolitan and non-metropolitan municipalities (Patterson, 2008). Section 26(c) notes that: “An integrated development
plan must reflect the council’s development priorities, and objectives for its elected term, including its **local economic development aims** and internal transformation needs”.

Further, Section 74(2)(g) emphasises the role if municipalities to encourage economic development through tax incentives, noting that: “A tariff policy must reflect at least the following principles, namely that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users”.

The Municipal Systems Act therefore provides tools for the alignment of municipal planning and incentive tariffs promoting business retention and expansion, in order to realise municipal economic development objectives of the municipality.

- **Facilitating and influencing municipal budget allocations and spending:** With the exception of funds distributed through conditional national grants or provincial structures, the municipal Council has the task of allocating the budget to municipal departments and projects based on municipal objectives and integrated development planning outcomes. As a result, the Council has the ability to facilitate the allocation and the spend the municipal budget in a manner that supports an enabling environment for economic development.

- **The role of municipalities as a planning authority:** As a planning authority, the municipality has the spatial planning and land use management tools to act as a gatekeeper and overseer of the spatial development of the municipality. As a result, the Council has the ability to encourage development that meets the social, economic, and spatial objectives of the municipality, in a manner that supports an enabling environment for economic development and investment.

- **Management of the municipal properties and assets:** The ability of municipalities to acquire, own and release property, has the potential to influence development of appropriate facilities or investment opportunities to facilitate economic development which meets the spatial and social objectives of the municipality.

- **Location and relationship with communities:** The location of the municipality and the range of services it provides to communities means that institutionally local government is well positioned to understand the local context and appropriately interact with communities in order to facilitate an enabling macro environment for economic development within the municipal areas, and facilitate access to economic opportunities for previously and currently marginalised communities.

### 2.2. Project methodology

The methodology used for the case study research is described in Figure 2 below, and was focused on engagements with provincial and municipal officials as key project stakeholders and informants. These engagements occurred in two phases. Firstly, an initial workshop and interviews with strategic stakeholders. Secondly, a review of the findings with the key informants within each municipality.
Due to the complexity of economic development each case study aims to understand the municipal approach to economic development through developing an understanding of the economic development or local economic development department, as illustrated in Figure 3. A four-pronged approach was developed which unpacks the following elements of the interpretation of the economic development function in each case study:

1. The evolution and history of economic development within the municipal area;
2. Local policy and framework context;
3. Networks and institutional arrangements between the municipality and strategic economic development partners of stakeholders;
4. Organisational structures associated with executing the economic development function, and understanding whether this structure is unique to the municipality, and if so, how.
2.2.1. Case study report structure

The following four chapters of this report provide an overview of each of the four municipal case studies addressing the findings as per the four-pronged approach described in Figure 3 above. For ease of comparison, each chapter is structured as follows:

1. Municipal approach to economic development function: Summary of strategic findings;
2. Background to the local context: Overview of the local context with an emphasis on the economic environment and drivers of economic development;
3. Evolution and history of economic development within the municipal area: Insight into approaches or events that underpin the status quo described in the previous section;
4. Municipal policy context: Summary of the key policies and frameworks supporting the economic development function with the municipality;
5. Networks and institutional arrangements: Noting that economic development is based on relationships and partnerships, the existence and structure of the relationships and partnerships between the local economic development organisational structures and both internal and external stakeholders and role-players is explored;
6. Organisational response to economic development: Summary of the organisational structures supporting local economic development within the municipality, with an emphasis on employee capacity (i.e. number and background) and financial capacity within each unit.
3. EThekwini Metropolitan Municipality

3.1. Municipal approach to the economic development function

The research summarised below has indicated that the municipal approach to economic development in the eThekwini Metropolitan Municipality can be described as “economic development facilitation”. This “economic development facilitation” approach is evident through the emphasis on partnerships with the private sector to support the economy and investment, and understanding the municipal role in stimulating economic development through infrastructure provision, urban regeneration projects, and marketing the municipality as a tourism destination and a municipality with high investment potential. In addition, the municipality seeks to support small business and skills development through mentor programmes and infrastructure projects.

3.2. Background and economic profile

Located on the east coast of South Africa in the Province of KwaZulu-Natal (KZN), the eThekwini Metropolitan Municipality spans an area of approximately 2300km² and is characterized by steep and dissected topography, and is home to approximately 3 442 361 million people (EThekwini IDP, 2015: 97; Census 2011). The eThekwini population comprises 33% of KZN and 7% of South Africa’s total population. The yearly population growth rate from 2006 to 2013 averaged 1.3% per annum, which is 0.1% higher than KZN on average, and equal to the national average. This
rate shows a steady decrease from its 2006 levels, which was 1.1% per annum. The municipality consists of a diverse society which faces various social, economic, environmental and governance challenges (EThekwini IDP, 2015: 24). From a spatial development perspective, eThekwini is challenged by a fragmented spatial growth and development pattern, coupled with and informed by significant urbanisation (World Bank, 2016).

EThekwini is the economic powerhouse of the Province of Kwa-Zulu Natal, presently eThekwini’s GDP comprises 65.5% of KwaZulu-Natal’s GDP and 10.9% nationally. GDP growth in the eThekwini Municipal region increased by 2.6% between 2012 and 2013 while KwaZulu-Natal and South Africa grew by 1.8% and 1.9% respectively. The eThekwini GDP is estimated to have grown by 3.6% to R230.8 billion in 2015 (EThekwini IDP, 2015: 42).

As illustrated in Figure 5 above, the percentage contribution to GDP by broad municipal sectors during 2013 (IDP, 2015: 44). The eThekwini economy was dominated by tertiary industries that including finance (22%), manufacturing (22%), community services (17%), trade (17%), and transport (16%). Apart from the tertiary sector fulfilling a major role within the context of eThekwini’s economy, manufacturing (which is classified within the secondary sector) constituted 22% of the total economic activity, particularly the production of food and beverages, as well as fuel, petroleum, chemical and rubber products that contributed towards the significant contribution of manufacturing within eThekwini.

From an employment perspective, the tertiary sectors accounted for 73% of employment in eThekwini in 2013, while the secondary sector made up 26% and the primary sector made up 1%. Overall, eThekwini showed significant improvement with respect to the municipality’s unemployment rate, decreasing from 28.1% in 2004 to
approximately 13% in 2013. When compared to the other metro municipalities in 2013, eThekwini performed the comparatively better that Johannesburg (22.8%) and Cape Town (24.9%) in terms of the unemployment rate. The highest employment sector in eThekwini is the community services sector with 19%, closely followed by trade (18%), and manufacturing (17%) sectors. The smallest sector is mining with only 2% of total employment opportunities. The release of Census 2011 and the latest 2013 data from Global Insight provides the most recent information on the socio-economy indicators for the municipality (EThekwini IDP, 2015: 45).

Based on current trends, it is predicted that economic growth will be led by manufacturing, logistics and tourism. The municipality notes that other sectors such as the green economy are still in an infancy stage and it is acknowledged that support should be provided for future growth and urban resilience planning (ED&JCS, 2013: 39).

### 3.3. Evolution and history of economic development within the municipal area

The economic and social make-up of Durban reflects the fundamental disparities in South African society. At one level the city plays a critical role in the South African economy, and on the other is part of a rural-urban dynamic within the Kwa-Zulu Natal Province that is characterised by significant inequality, a challenge endemic to the South African context (Nel et al, 2003).

EThekwini is the economic hub of the KZN province with significant regional connections through freight and port activities. This is emphasised through the development of the Durban-Gauteng Logistics Corridor, which is focussed on encouraging development to support the manufacturing industries along the corridor and re-establish the role of the Port as an entry point to the South African economy. The city is home to Africa's busiest port and it generates some 50% of KwaZulu-Natal's (KZN) economic output. The economic history is intrinsically linked to the port development since the 1880s when it took over from the Port Elizabeth Port as the main access point for trade goods destined for the southern African interior, due to Durban’s location in relatively close proximity to the Free State and the Witwatersrand gold fields. The Durban Port is now the largest and busiest shipping terminal in sub-Saharan Africa, handling up to 31.4 million tons of cargo each year. However, as it is reaching capacity, it is facing competition from ports further north including the ports of Mombasa and Djibouti which offer more direct access to Eastern and Central African markets.

Due to its natural resources such as the moderately warm climate, long stretches of coastline, as well as social-urban history such as colonial and Victorian-era suburbs, and rich cultural diversity, Durban enjoys renown as the country’s premier domestic tourism destination, with the province accounting for approximately 52% of the domestic tourism market. This success and need to accommodate high numbers of tourists, has resulted in the developments along the beach front and others which contribute to the tourism sector to the city’s economy. Similarly, since the construction of the International Convention Centre, the city hosts a range of key global events and is currently rated as one of the top business tourism cities in the world.

### 3.4. Local economic policy environment

Local policies and frameworks relating to the economic development function reviewed as part of this study included: the EThekwini Integrated Development Plan (IDP), EThekwini Spatial Development Framework (SDF), Economic Development and Job Creation Strategy, and the Informal Economy Policy.
The metropolitan municipality’s strategy documents provide a high-level direction to the implementation of the economic development mandate within the municipality. The focus of these documents indicate that economic development should underpin the planning of all departments and be the city-wide focus of the municipality. However, it is noted that the high-level strategies are not well integrated. For example, the Integrated Development Plan (IDP) chapters are essentially developed within line departments independent of each other. Further, the eight-point plan outlined in the IDP, essentially notes that everything is significant, resulting in challenges for project and municipal budget prioritisation and alignment.

Further, it is noted that the approach to local economic development advocated by national policy and framework suggests a single, sector-based approach to economic development within municipalities which is not the most appropriate within the eThekwini context which has adopted a “development facilitation” approach to economic development. There is currently a need to action these policies, but institutional and organisational challenges have meant that the development of an economic development plan to complement and ensure the implementation of the economic development strategy was impractical due to what has been described as “a fragmented economic development function” within the City.

In summary, the policy and framework environment is adequate. However, in practice that there is some overlap in mandate and that the intention to include economic development concerns in decision-making across all departments is lost, and difficult to implement. While municipal policies and frameworks indicate that economic development underpins all municipal planning and processes, in practice this is not necessarily the case.

### 3.5. Networks and institutional arrangements

“Durban is probably unique in the level of involvement and commitment shown by big business to the broader development of the city. The reasons for this stem from the sheer importance of manufacturing in the city’s economy and most significantly the key role played by predominantly regional business in the city and in the province’s economy, giving them a distinctly provincial, as opposed to national, level of interest and hence commitment” (Nel et al, 2003: 230).

This study has explored the strategic relationships between the municipality and external stakeholders from the perspective of the Economic Development Cluster, primarily the Economic Development Facilitation Unit and the Business Support, Markets and Tourism Unit. The municipal focus on development facilitation has resulted in an approach that supports partnerships with non-government actors and working relationships with local business partners is emphasised through partnerships with a range of stakeholders including PRASA, Tongaat-Hullett, and the Durban Business Chamber. Several functional platforms for engagement between government and the private sector exist as a result of leadership decisions taken in the mid-1990s. The City Planning Forum, for example, is one of the institutional structures responsible for continuing the work of the Durban Business Vision, developed in 1996, which aimed to promote the city’s development through encouraging development which focused on established economic clusters linkages and nodes (Nel et al, 2003: 231).

Despite the range of partnerships between the City and the external stakeholders, the majority of these relationships are project based. For example, the Cornubia and Bridge City developments were developed in partnership with Tongaat-Hullett which provided much of the land for these developments. Due to the economic drivers described above, including the Durban Port, Tourism, and the agricultural hinterland which supports the municipality, the
municipality is aware of the forward and backward linkages necessary to support these industries. Therefore, the nature of these drivers are fundamentally part of economic systems and parts of an economic network is possibly a strong reason for the strong partnerships between the municipality and private sector actors.

Similarly, from an internal institutional perspective, the potential for collaboration and integration between line departments lies predominantly through projects. Similarly, conditional grants also have the power to integrate by stimulating projects, a trend that has been highlighted and acknowledged through the positive impact of the Integrated City Development grant (ICDG) regarding the alignment of inter-departmental projects, prioritisation, and clustering is noted, despite the limited monetary contribution of that particular grant.

### 3.6. Organisational review

As noted above, the metropolitan municipality’s strategy documents provide a high-level direction to the implementation of the economic development mandate within the municipality. The focus of these documents indicate that economic development should underpin the planning of all departments and be the city-wide focus of the municipality. The municipality adopted the local economic development approach to economic development function through efforts by COGTA and others. As a result, the eThekwini IDP emphasises Local Economic Development (LED) as key performance indicator, and reviewed the sector within eThekwini through a SWOT analysis summarised as per the table below.

Table 1: LED SWOT Analysis (IDP, 2015/16)

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increased investment in LED opportunities</td>
<td>• Implementation of LED programmes take long</td>
</tr>
<tr>
<td>• Improved infrastructure to support LED</td>
<td>• Shortage of skills and entrepreneurial models</td>
</tr>
<tr>
<td>• Municipal entities that increase revenue base</td>
<td>• Over reliance to the municipality to provide the LED Opportunities</td>
</tr>
<tr>
<td>• Effective economic development nodes identified and developed</td>
<td>• LED opportunities centred in the urban areas</td>
</tr>
<tr>
<td></td>
<td>• Limited opportunities for LED in Rural Areas</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Effective funding instruments to provide economic benefits</td>
<td>• Increased unemployment</td>
</tr>
<tr>
<td>• Skills transfer programs to build further LED opportunities</td>
<td>• Food insecurity</td>
</tr>
<tr>
<td>• Create access to employment and economic opportunities</td>
<td>• Increase in crime, grime and poverty</td>
</tr>
<tr>
<td>• Implementation of the LED and Tourism Strategy</td>
<td>• Poor investor confidence</td>
</tr>
<tr>
<td>• Spatially redefine LED opportunities</td>
<td></td>
</tr>
</tbody>
</table>

The clustering model is useful because it addresses three core elements of the economic development function, namely, (1) spatial and environmental planning, (2) investment, research and facilitation, and (3) business support. It is noted that Business Support exhibits a developmental approach, focussed on promoting access opportunities
for businesses to the formal economy, while at the same time undertaking projects that enable the informal economy. In this way, the mandate of the department is well positioned to promote interventions across the range of approaches to economic development (i.e. pro-poor to pro-growth, or bottom-up to top-down approaches to development). The Business Support Unit is an evolution of the “local economic development” unit, however, the naming language has been changed to better represent the intention and focus areas of the unit. From projects and programmes perspective, an institutional gap exists between the Deputy City Manager’s Office and the Business Support, Tourism and Markets Unit, where the catalytic projects championed by the Deputy City Manager’s Office are not necessarily aligned with, or inclusive of, that of the Business Support, Tourism and Markets Unit.

Further, it is noted that both the Durban Investment Promotion Agency (DIPA) and Durban Tourism are no longer external municipal entities, but have been incorporated into the organisational structure as per the diagrams below. Reasons provided for this change in the structure include the need for better integration between these former entities and other municipal departments, as well as to improvement oversight systems.

![Organogram](http://www.durban.gov.za/City_Government/Administration/Administrative%20Clusters/Pages/default.aspx)

Figure 6: eThekwini high-level organogram indicating organisational clusters (eThekwini, 2016)

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1 http://www.durban.gov.za/City_Government/Administration/Administrative%20Clusters/Pages/default.aspx
Figure 7: Economic Development and Planning Cluster organogram

Table 2: Organisational capacity status quo – EDI & BSTM Units (Departmental organograms)

<table>
<thead>
<tr>
<th>1</th>
<th>Economic Development and Investments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Total number of staff within the unit</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>Programmes</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Economic Development Projects</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Policy, Strategy, Information and Research (PSIR)</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Durban Investment Promotion Agency (DIPA)</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Durban Film Office</td>
<td>7</td>
</tr>
<tr>
<td>1.2</td>
<td>Total number of vacant posts within the unit</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>Percentage vacancies of total posts within the unit</td>
<td>29%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>Business Support, Tourism and Markets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Total number of staff within the unit</td>
<td>236</td>
</tr>
<tr>
<td></td>
<td>SMME</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Informal economy, markets and retail</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>Administration and systems control</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>Operations and marketing</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td>Durban tourism</td>
<td>50</td>
</tr>
</tbody>
</table>
3.7. Trends and findings summary

The following observations and findings have emerged out of the study of the municipal economic development function in the eThekwini Metropolitan Municipality:

The eThekwini municipality has adopted a “development facilitation” approach to local economic development. Through policy documents it is clear that the municipality understands economic development as a central component of its metropolitan strategy. The “development facilitation” approach is noted through the municipality’s partnerships with strategic private sector actors, and a focus on attracting and retaining investment within the municipality are through investing in urban infrastructure and urban revitalisation projects.

The history of partnership between the municipality and the private sector can be attributed to a favourable economic climate resulting in private businesses and stakeholders approaching the municipality for support or to facilitate the necessary economic environment. This context can be largely attributed to the strategic location of the municipality and the Durban Port. However, despite the historical trends, as the Port reaches capacity, and faces increasing competition, and the national economic outlook recovers from the global recession, the context that resulted in private actors approaching and partnering with the municipality is changing. Therefore, the response of the municipality will be to respond through an understanding of economic development and the economy, beyond the traditional focus on poverty-alleviation and social interventions.

The organisational location of the spatial planning and development office within the economic development cluster emphasises the understating that economic development has a spatial component, and that this is the municipality’s strategic advantage. The role of the municipality as planning authority is clearly linked to the economic development function of the municipality, indicated in the municipality’s focus on public-realm improvements.

Organisational structure reflects the “development facilitation” approach to economic development specifically through the Economic Development and Investments Unit which provides an institutional and strategic link between pro-poor and traditional local economic development scale projects with pro-growth oriented projects and programmes. However, some duplication has occurred and this unit is considerably smaller than the more traditional LED unit (Business Support, Tourism and Markets), and appears to enjoy less political support.

The significance of the Business Support, Tourism and Markets Unit is indicated by its size. It is also acknowledged that community engagement through poverty-alleviation and skills development projects are necessary to facilitate a business-friendly environment. The size of the department is relative to the high population within the municipal area, and the correspondingly high unemployment and poverty statistics, and indicates the political support of more traditional local economic development approaches.
4. UMhlathuze Municipality

4.1. Municipal approach to the economic development function

The research summarised below has indicated that the municipal approach to economic development in UMhlathuze Municipality can be described as “enterprise and business support”. This “enterprise and business support” approach is evident through the municipality’s focus on bridging the gap between established industrial operations and smaller local businesses by supporting local business development through significant SMME support. However, this approach is changing, and the municipality is moving toward facilitating investment in the region and seeking ways to increase and improve partnership opportunities, as articulated in the Roadmap to Economic Development and Job Creation.

4.2. Background and economic profile

![Image of UMhlathuze boundaries and locality](Demarcation Board, 2016)

The City of UMhlathuze is one of 6 municipalities which form the Uthungulu District Municipality, and is situated along the Indian Ocean Coast, roughly 180 Km North of Durban and approximately 600km South East of Johannesburg. The coastline border spans approximately 45 kilometres, and includes the port precinct. UMhlathuze Municipality is bordered by KwaMbonambi Local Municipality to the north-east; uMlanazi Local Municipality to the south-west; Ntambanana to the north-west; and the Indian Ocean to the east.
The uMhlathuze area covers 795 km² (9.7% of the uThungulu District’s total land area), and is demarcated into 30 wards. The municipality incorporates Richards Bay, Empangeni, eSikhaleni, Ngwelezane, eNkoleni, Felixton and Vulindlela, as well as the four rural areas under Traditional Councils namely, Dube, Mkhwanazi North and South, Kwakhoza, and Zungu-Madlebe. These Traditional Authority lands account for approx. 34% of the total municipal area. While Richards Bay functions as the industrial hub, Empangeni identified the main commercial centre. The majority of the economic activity (88%) is concentrated within the Richards Bay, Empangeni and Felixton areas.

Regarding accessibility, uMhlathuze is well networked in regards to infrastructure, the N2 highway traverses the uMhlathuze Municipality in a north-east direction towards the Swaziland border and south-west towards Durban, forming the EThekwini-Lembe-Richards Bay corridor which is a regionally significant economic infrastructure corridor. From a local spatial perspective, the N2 highway effectively forms a division between Empangeni and Richards Bay, the two primary nodes of the municipality (UMhlathuze IDP, 2015: 5; uMhlathuze Tourism Strategy, 2014).

The total municipal population is estimated at 334459 (2011 Census) making it the most populous municipality within the UThungulu District and the economic heart of the District Municipal Area. However, the municipality is faced with the challenge of an unemployment rate of 31% and a youth unemployment is at 40.8% (StatsSA Census, 2011). Regarding population statistics, roughly three quarters (72%) of the population is aged below 35 years, and only 8.5% of the total population have achieved higher education (UMhlathuze IDP, 2015).

### 4.3. Evolution and history of economic development within the municipal area

Richards Bay has evolved from a small fishing village to a significant national economic node, and a key industrial node within the KZN province. The location of mineral industrial activities in Richards Bay has been strongly influenced by government decentralisation policy in the early-1960s until the 1990s. The Local municipal areas surrounding and including uMhlathuze Municipality is rich in mineral resources including ilimite, rutile, zircon and pig iron (Hill, 2005). In addition, all of South Africa’s aluminium is produced in uMhlathuze. One of the world’s largest smelters and several of the world’s industrial giants are also situated here (such as Richards Bay Minerals (RBM), Mondi Kraft, Richards Ray Coal Terminal, Ticor, and BHP Billiton). The municipality has a GDP of R3,7 billion and an average GDP growth rate of 4% per annum. UMhlathuze contributes 7.6% to the GDP of KwaZulu-Natal. Exports, timber and manufacturing drive the local economy, which features an Industrial Development Zone (RB-IDZ). The Richards Bay Coal Terminal is the world’s largest coal export facility by storage and throughput (uMhlathuze Tourism Strategy, 2014).

However, as a result the uMhlathuze economy has become reliant on these mineral-based “unlinked globally competing industries”. This has reinforced structural economic inequality as a result of “the poorly developed backward and forward linkages that the core-manufacturing sector has with the rest of the local economy and the paucity of small and medium enterprises in general and as suppliers/off-shoots to the major firms (Hill & Goodenough, 2005)”. In parallel to the establishment of these industries, a major urban centre emerged. The centre was characterised by impoverished resident, many of whom were unable to find work in the large, capital intensive firms. In response to these social challenges, there is a history of social upliftment initiatives initiated by both public and private stakeholders and organisations. For example, established corporate companies play a key role in pro-poor development through their Corporate Social Investment (CSI) initiatives. The approach of Local Economic
Development (LED) as a pro-poor response to encourage community upliftment, are firmly in place in the local municipality’s LED strategy and organisational structure. The further establishment of these mineral and energy intensive industries over time, and grass-roots social upliftment initiatives have entrenched the economic inequality in the region, particularly the challenges regarding access to economic opportunities for smaller businesses. This history has led to a tension between the rural and urban characteristics of the municipality, which is trying to strategically position itself as an urban centre (SACN, 2014).

The strategic location of uMhlathuze, its proximity to the Port of Durban, its own Port of Richards Bay and Richards Bay Coal Terminal, and the well-established industries within the uMhlathuze municipal area are reflected in the breakdown of the local economy by sector as per Figure 9. This graph illustrates that manufacturing industries are significantly dominant within the municipality. Further, due to the scale of significant capital intensive industries and the linkages with international trade and export, the manufacturing sector highlights the impact of the 2008 global economic recession more so than other sectors noted in this analysis. Despite this consideration, overall the economic has experience stable growth and some recovery post-2008.

uMhlathuze’s economic growth is in part attributable to expansion of coal mining and transport activities as well as on-going infrastructure development, such as the on-going Richards Bay port expansion project (increasing the terminal capacity from 61 million tonnes to 81 million tonnes). Several private sector initiatives are underway such as plans to develop the John Ross Interchange (JRI) Business Park, the acquisition of the 195,000m² Industrial property has already taken place by Liberty Invests, and a planned infrastructure spend of around R33bn within the UMhlathuze area by Transnet over the short term. These major initiatives are expected to influence investment in this region which expected to increase significantly (uMhlathuze Tourism Strategy, 2014).

![Figure 9: Economic activity by sector, UMhlathuze 2001-12 (Global Insight 2013 in uMhlathuze IDP, 2015)](image)

2 UMhlathuze Tourism Strategy (2014)
4.4. Economic policy environment

“The real potential to create employment and achieve pro-poor development in Richards Bay area is not in the construction of more large companies, but rather in the extent to which smaller firms cluster around them through value-added downstream processing (Hill and Goodenough, 2005: 40)”.

Local policies and frameworks relating to the economic development function reviewed as part of this study included the Integrated Development Plan, Local Economic Development Strategy, Informal Economy Policy, Tourism Strategy, and Spatial Development Framework.

The policies highlighted above emphasise the need to stimulate job creation, and provide opportunities for individuals to develop the necessary skills to acquire those employment opportunities. In response to the challenges identified the mission of the municipality includes the “job creation through economic development”, “improving citizens’ skills levels and education”, and “maintaining consistent spatial development” (UMhlathuze IDP, 2015: 16). The language used seems to emphasise that it is the role of the municipality to address this challenge, and links to a focus on pro-poor and poverty-alleviation approaches. The challenges identified in the IDP do not mention challenges of economic diversity, nor do they mentioned increased or improved private sector engagement. This limited referral to non-government actors may be because appropriate and successful engagement with stakeholders outside of the municipality is difficult to measure and is therefore an inappropriate key performance area.

These policy documents and frameworks reviewed suggest that while strides have been made to develop a more strategic approach to economic development, the focus of the municipality is predominantly on community-level and small business-oriented interventions that are in line with the pro-poor history of the municipality. Further this is approach supports the need to bridge the gap between large industrial enterprises, with limited local business chains and limited potential for increased job creation, and smaller local businesses with the greatest potential for job creation opportunities.

The current gap within the economic development environment is an approach which addresses rural-urban tensions, as well as the gap between skills and local work opportunities, in a way that acknowledges the role of the private sector in job creation.

4.5. Networks and institutional arrangements

Networks and relationships were explored from the perspective of the Business Support, Markets and Tourism Unit. It was found that relationships within the municipality, with other government agents such as Provincial Government, and private stakeholders were limited. Where these did exist they were project specific or the result of a private actor approaching the municipality for assistance or to request the municipality to identify beneficiaries for social projects. Historical relationships exist between the municipality and established industrial entities which have established a consistent relationship around corporate social responsibility initiatives.

From a local government perspective, municipal local economic development forum is a key vehicle for engaging with a range of stakeholders who influence economic development within the municipality. The LED forum in UMhlathuze has enjoyed limited success in this respect as an opportunity for government to engage with investors and private actors. Rather, this forum has become a project management reporting opportunity with limited representation from the private sector.
Another example of a government vehicle, is the approach to supporting the tourism industry in UMhlanga which faces significant competition from many other more scenic regions of the KZN province. As a result of its history and industry-based economy, the local tourism industry is predominantly characterised by business tourism. The municipality is putting significant effort into supporting the local tourism industry through a strategy to encourage business tourism and a tourism practitioner forum to facilitate support for local business owners, and stimulate the local industry.

However, apart from these formal vehicles that seek to foster partnerships to stimulate economic development within the municipality, the other key means of partnership from a municipal perspective is through approaching businesses to invest in municipal projects such as small business incubators and skills development programmes. This approach can be described as a “supply-driven” approach, as opposed to a “demand-driven” approach, where demand for the initiative or programme is driven by the private sector or actors who are able to fund that particular initiative. However, this is particularly difficult in a municipality where the economy is driven by “unlinked globally competing industries”, that have limited forward and backward linkages within smaller local industries or businesses, providing limited demand-driven opportunities.

Despite strong leadership and a move toward a more integrated approach to economic development, UMhlanga’s Economic Facilitation Department, specifically the Business Support, Markets and Tourism Unit currently holds limited influence over stakeholders within the municipality as well as institutions outside of it.

4.6. Organisational review

The policy documents and frameworks reviewed suggest that while strides have been made to develop a more strategic approach to the implementation of the economic development function, the focus of the municipality is predominantly on community-level and small business-oriented interventions that are in line with the pro-poor history of the municipality. This approach is strongly informed by the need to bridge the gap between large industrial enterprises, with limited local business chains and limited potential for increased job creation, and smaller local businesses with the greatest potential for sustainable local job creation opportunities. This approach is reflected in the structure of the municipal organogram.

From an organisational perspective the local economic development function is located within the City Development Department, which is responsible for business development, real estate development, planning, permitting, and public housing (City of UMhlanga, 2016). Strategically City Development is headed by a Deputy Municipal Manager and contains the “Urban and Rural Planning” and “Economic Development Facilitation” units. In the last review of the organisational structure the municipality was influenced by the eThekwini Metropolitan Municipality’s organisational structure which contains similar messaging.

By including spatial planning and economic development facilitation under the same department the municipality acknowledges their role of a planning authority in relation to stimulating and facilitating economic development. This is further emphasised through the inclusion of property administration and property valuations within the Economic Facilitation Unit. It is noted that the Public Transport Facilities unit will be moved to the level below City Development Department within the next organisational structure revision. The current structure supports communication and

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collaboration between relevant departments of spatial planning, property management, and transport. All of these are critical to facilitating a local economic environment that facilitates investment and economic development. Possibly due to the size of the municipality and the clear challenges facing economic development in the region, it appears that the corporate culture supportive and encourages collaboration.
### Table 3: Organisational capacity status quo, UMhlathuze Municipality

<table>
<thead>
<tr>
<th></th>
<th>Within the Municipality</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.</td>
<td>Total number of staff employed by the municipality</td>
<td>1860</td>
</tr>
<tr>
<td>1.2.</td>
<td>Total number of vacant posts within the municipality</td>
<td>679</td>
</tr>
<tr>
<td>2</td>
<td>Within the Economic Development and Facilitation Department</td>
<td></td>
</tr>
<tr>
<td>2.1.</td>
<td>What is the total number of posts within the department?</td>
<td>32</td>
</tr>
<tr>
<td>2.2.</td>
<td>What is the total number of vacant posts within the department?</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>Within the Business Support Markets and Tourism Unit</td>
<td></td>
</tr>
<tr>
<td>3.1.</td>
<td>What is the total number of staff within the unit?</td>
<td>12</td>
</tr>
<tr>
<td>3.2.</td>
<td>What is the total number of vacant posts within the unit?</td>
<td>2</td>
</tr>
</tbody>
</table>

### Table 4: Financial overview of the Business Support, Markets and Tourism Unit

<table>
<thead>
<tr>
<th></th>
<th>Within the Municipality</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.</td>
<td>What is the total annual budget of the municipality?</td>
<td>R2 910 000 000</td>
</tr>
<tr>
<td>2</td>
<td>Within the Economic Development Facilitation Department</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What is the total annual budget of the department?</td>
<td>R24 358 590</td>
</tr>
<tr>
<td>2.1.</td>
<td>What is the total annual budget of the unit?</td>
<td>Operational</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R1 743 100</td>
</tr>
<tr>
<td>2.2.</td>
<td>What was the total annual budget requested by the unit?</td>
<td>R23 651 090.00</td>
</tr>
</tbody>
</table>
4.8. Trends and findings summary

The following observations and findings have emerged out of the study of the municipal economic development function in the UMhlathuze Municipality:

The UMhlathuze Municipality has adopted an approach to local economic development that can be described as “enterprise and business support oriented”. This “enterprise and business support” approach is evident through the municipality’s focus on bridging the gap between established industrial operations and smaller local businesses by supporting local business development through significant SMME support and at the same time initiating skills development programmes. However, this approach is changing, and the municipality is moving toward facilitating investment in the region and seeking ways to increase and improve partnership opportunities. This approach to economic development is a direct response to the employment and economic access gap between established mineral and industrial industries with limited local value chains, and smaller local business opportunities.

Economic development, particularly when associated with “Local Economic Development”, is seen as a “soft” municipal service which competes with other service delivery departments and municipal development needs, such as infrastructure and housing. As a result, it is challenging to build momentum and increase the profile of the Business Support, Markets and Tourism Unit, and the Economic Facilitation Department, through individual pro-poor projects and skill development programmes. Similarly, within the political landscape, wards compete for services and investment. Ward councillors facilitate this by campaigning for prestige and opportunities within their jurisdictions without necessarily considering the bigger picture. As a result, it is difficult for the unit, and the municipality more broadly, to influence political leadership, external stakeholders and spatial transformation.

The municipality is aware of its role as a planning authority and the potential to influence the economy and spatial development, as it is in an unusual, and positive position as a local authority with ownership over well-located properties. However, in its attempts to utilise the properties in line with the municipality’s economic development goals, the municipality has identified significant challenges regarding property administration and the processes of land acquisition, land banking, and land release.

The current approach to economic development can be described as a “supply-driven” approach, where the municipality is developing projects and programmes and looking for investors and funding for these initiatives. This approach is the opposite of a “demand-driven” approach, where demand for the initiative or programme is driven by the private sector or actors who are able to fund that particular initiative, as we see in the corporate social investment programmes. However, this is particularly difficult in a municipality where the economy is driven by “unlinked globally competing industries”, that have limited forward and backward linkages within smaller local industries or businesses, providing limited demand-driven opportunities within the municipal area.
5. Newcastle Municipality

5.1. Municipal understanding of economic development function

The research summarised below has indicated that the municipal approach to economic development in Newcastle Municipality can be described as “business support and facilitating investment”. This “business support and investment” approach is evident through the relationships with local business and actively marketing the strategic advantages of the municipality through the ability to provide electricity and market the municipality as suitable to industrial business establishment and investment.

5.2. Background and economic profile

Newcastle Local Municipality is the most populous town within the Amajuba District Municipality. Named after the town of Newcastle, the municipality has a population of 363,236, which is characterised by an 88% urban population reflecting the predominantly industrial and service economy of the municipality, the majority of which reside in the townships of Madadeni and Osizweni, in Newcastle East. Recent growth in the Newcastle economy has been driven by a combination of a growing population and expansion of major industrial sectors, seeing significant change over the last two decades, and serves as the regional centre for most of
the economic development within the district, hosting a variety of well-developed economic sectors. The municipality forms part of the provincial spatial systems and is identified in the PSEDS as one of the economic hubs within the province. According to Census 2011, 37.4% of the 100 654 economically active individuals (i.e. those who are employed or unemployed but looking for work) are unemployed. Of the 53 886 economically active youth (15–34 years) in the municipality, 49% are unemployed. These figures are significant and pose a range of challenges to the municipality.

From a connectivity perspective, Newcastle is strategically located on the N11 route as an economic corridor which links KwaZulu-Natal to the Gauteng province. This has led to an influx of logistics companies using the route to transport goods and service between the two provinces. This route also plays a role in exporting outputs from mines within the area surrounding Newcastle, by linking the municipality to exporting destinations, such as the Durban Port. However, the heavy volumes of traffic and logistics trucks have taken their toll on local roads, resulting in rutting, potholes and poor driving conditions (Newcastle Municipality Annual Report, 2013/14).

**5.3. Evolution and history of economic development within the municipal area**

Newcastle is KwaZulu-Natal’s fourth oldest town and was named after the British Colonial Secretary, the Duke of Newcastle, when it was founded in 1864. At the junction of 3 provinces, namely Mpumalanga, Free State and Kwa-Zulu Natal, the town of Newcastle has a history as a ‘natural’ destination and departure point for travellers, and is now the largest town in northern KwaZulu-Natal. The discovery of coal at the turn of the last century sparked the development of the area’s economy, and the town’s potential as an industrial centre has been considered since the discovery; however, it was only in 1918 when the first steel works was built. Later significant industrial actors such as Karbochem and ISCOR (now Arcelor Mittal) established plants in Newcastle, and a vigorous marketing campaign by the municipality attracted a wealth of investment from the far East (Newcastle LED Strategy, 2012).

As a result, in addition to the Zulu, Afrikaner, and English speaking communities, Newcastle has a large Chinese population that includes people from Taiwan (Republic of China), and Hong Kong. According to the Census 2011, 3.2% of the municipal population are of Indian or Asian ethnicity or descent. Following these events, Newcastle developed rapidly as an industrial town and prominent growth point in Northern Natal and today steel furnaces and coal related industries dominate the industrial sector and local economy (Newcastle, 2016). In addition to these, two other significant industries are the textile and tourism industries, which are summarised below.

In addition to the steel and coal related industries, Newcastle has a strong base of existing infrastructure geared towards manufacturing, and is considered an important node within the wider provincial manufacturing sector. Research has shown that Newcastle has a competitive edge for the manufacture of aluminium-based products, high quality leather goods, textiles and textile products, clothing, automotive components and metal products and machinery (Newcastle LED Strategy, 2012). Most notably, the town has become the national textile capital, with some 65% of all South Africa’s textile industries and being the largest school-wear manufacturer in the municipality.

Newcastle is a gateway to the region and an emerging destination with a growing number of tourists. The tourism sector has been identified as an area for expansion including transit visitors (truck drivers); the short stay market from Gauteng and Durban, have also used Newcastle as a resting place on their long journey up or down the N11. In addition to these, the municipality is involved in tourism events such as the winter festival, Siyabonga Challenge and 15 other more events; they are sponsored by the Provincial EDTEA department with R2 million budget.
5.4. Economic policy environment

Local policies and frameworks relating to the economic development function reviewed as part of this study included the Newcastle Integrated Development Plan (IDP), Local Economic Development Strategy, and the Amajuba District Integrated Development.

The policies highlighted above respond to the significant unemployment rate in the municipality, emphasising the need to stimulate job creation, and provide opportunities for individuals to develop the necessary skills to acquire those employment opportunities. The challenges identified in the IDP do not mention challenges of economic diversity, nor do they mention increased or improved private sector engagement. This limited referral to non-government actors may be because appropriate and successful engagement with stakeholders outside of the municipality is difficult to measure and is therefore an inappropriate key performance metric tool.

In response to the Provincial Growth and Development Strategy, Newcastle municipality has placed emphasis on understanding what market needs, i.e. pro-growth approach, as opposed to community needs exclusively, i.e. pro-poor approach. This change in approach is also largely informed by the challenges experienced around developing sustainable pro-poor initiatives. This approach is reflected in the language of the Newcastle LED Strategy and Newcastle IDP which emphasises the need to “identify needs and gaps in enterprise support and business infrastructure; explore incentives that the municipality can provide to existing businesses to grow their operations and create more jobs; and identify ways to attract and promote inward investment to Newcastle (Newcastle IDP)”.

5.5. Networks and institutional arrangements

Networks and relationships were explored from the perspective of the Local Economic Development Unit. It was found that relationships with other government agents such as Provincial Government, and private stakeholders were strongest around project specific partnerships, most notably in the redevelopment of the local airstrip as part of a broader airport regional airport regeneration initiative, the development of an Agri-Park and Techno-Park adjacent to the airport precinct. Partners on this far-reaching project include, South African Airlink, the Provincial Government, ACSA and the regional business sector. Historical relationships exist between the municipality and established industrial entities, as a well as a legacy of municipality-led marketing campaigns to attract the Asian textile and industrial sectors.

Form a municipal institutional structures perspective, Newcastle is still in the process of forming its own LED forum. Project-led vehicles for institutional collaboration include a partnership arrangement established through the LED programme to bring together different stakeholders in the form of steering and technical committees for a number of projects such as the Agri Park and Techno Park. The committees have responsibilities of coordinating the programme, approving projects and disbursing funds. The programme has been able to create political champions as the Mayor is the lead person at city level. The lack of institutionalisation, limited participation of private, non-state actors, and limited integration of LED with local planning and budgeting processes, have been identified as weaknesses that need to be addressed in the future to bolster institutional connections and relationships.

Regarding the Amajuba District Municipality, it is noted that the District’s sectoral focus in on predominantly agricultural sector, poverty-alleviation and pro-poor initiatives. Further, the Newcastle Municipality’s budget exceeds that of the District. As a result, the Amajuba District focused more the surrounding municipalities than Newcastle.
From a private sector perspective, Newcastle has 3 distinct business chambers operating within the municipal area. These represent and support the various local businesses and are representative of local, Chinese, and Taiwanese businesses and investors.

5.6. Organisational review

From an organisational perspective the economic development function is located within the Economic Development Department which is located under the Development and Human Settlements Department. As per the diagrams below, the department is divided into the “Local Economic Development Unit”, “Tourism Development and Marketing Unit”, and the “Marketing and Investments Unit”.

Most posts have been filled with qualified officials and the unit is known for conducting and sending its staff to training and skills development. LED forums have not yet been formed but the municipality is in the process of selecting suitable candidates from the different sectors such as private-sector, business, civil society, government and the community. The “Local Economic Development Unit” has a sectoral focus on industrial, tourism, agriculture, SMMEs, which aligns to the needs of the municipality and business support and facilitation objectives. Good internal relationships between the various departments within the “Development Planning and Human Settlements Department” are reported, however capacity within the department is constrained, despite 8 of the 10 posts in the “Local economic Development Unit” being filled. Further, several staff within the unit have been working within the municipality for over 10 years. The long-serving officials bring continuity to the unit, and emphasise the significance of understanding historical economy of the region.

Figure 13: High-level municipal organisational structure, Newcastle Municipality
Figure 14: Economic development department organisational structure, Newcastle Municipality

Figure 15: Local economic development unit organisational structure, Newcastle Municipality

Table 5: Organisational capacity status quo, Newcastle Municipality

<table>
<thead>
<tr>
<th></th>
<th>Within the Municipality</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>What is the total number of staff employed by the municipality?</td>
<td>1234</td>
</tr>
<tr>
<td>1.2</td>
<td>What is the total number of vacant posts within the municipality?</td>
<td>4</td>
</tr>
<tr>
<td>2.1</td>
<td>What is the total number of staff within the unit?</td>
<td>10</td>
</tr>
<tr>
<td>2.2</td>
<td>What is the total number of vacant posts within the unit?</td>
<td>2</td>
</tr>
<tr>
<td>2.3</td>
<td>How many staff members have tertiary qualifications?</td>
<td>4</td>
</tr>
</tbody>
</table>
Table 6: Financial overview of the Local Economic Development Unit, Newcastle Municipality

<table>
<thead>
<tr>
<th></th>
<th>Within the Municipality</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>What is the total annual budget of the municipality?</td>
<td>R1.2 Billion</td>
</tr>
<tr>
<td>2</td>
<td>Within the Economic Development Facilitation Department</td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>What is the total annual budget of the department?</td>
<td>R13 million</td>
</tr>
<tr>
<td>3</td>
<td>Within the Business Support, Markets and Tourism Unit</td>
<td></td>
</tr>
<tr>
<td>3.1</td>
<td>What is the total annual budget of the unit?</td>
<td>R13 Million</td>
</tr>
<tr>
<td>3.2</td>
<td>What was the total annual budget requested by the unit?</td>
<td>R13 Million</td>
</tr>
<tr>
<td>3.3</td>
<td>Was the unit able to successfully spend its budget in the last financial year?</td>
<td>Yes</td>
</tr>
</tbody>
</table>
5.8. Trends and findings

The following observations and findings have emerged out of the study of the municipal economic development function in the Newcastle Municipality.

The Newcastle Municipality has adopted an approach to local economic development that can be described as "business support and facilitating investment". This “business support and investments” approach is evident through the relationships with local business and actively marketing the strategic advantages of the municipality through the ability to provide electricity and market the municipality as suitable to industrial business establishment and investment.

Despite this approach to economic development, it is noted that political influence on the project selection, reinforces the pro-poor, community-centred approach of the economic development. Despite the LED Strategy focus on more pro-growth initiatives and finding the balance between pro-growth and pro-poor intentions. Even though the IDP and LED strategy are aligned to the Provincial Growth and Development Plan, some of the Newcastle projects lack emphasis on sustainability and economic growth and lack of planning integration. The challenges identified in the IDP do not mention challenges of economic diversity, nor do they mentioned increased or improved private sector engagement. This limited referral to non-government actors may be because appropriate and successful engagement with stakeholders outside of the municipality is difficult to measure and is therefore an inappropriate key performance metric tool.

Regarding the relationship between Newcastle Local Municipality and the Amajuba District Municipality, it is noted that Newcastle has significantly greater institutional capacity than the District. The budget of Newcastle Municipality is greater than that of the District municipality, and the sectoral focus is distinctly different. While the District focusses on poverty alleviation and agriculture sector-based projects and programmes, it has limited ability to influence project outcomes, and plays a more coordination and facilitation role.

The character of the Newcastle economy is a function of this history and strategic location, and this largely informs its approach and institutional understanding of the economic development function. At the junction of 3 provinces, namely Mpumalanga, Free State and Kwa-Zulu Natal, the town of Newcastle has a history as a ‘natural’ destination and departure point for travellers, and is now the largest town in northern KwaZulu-Natal. Newcastle is a gateway to the region and an emerging destination with a growing number of tourists.

The Newcastle Municipality has an outward-looking, investment-seeking approach to economic development, possibly different to other municipalities of this size which are more connected to agricultural sectors. Historical relationships exist between the municipality and established industrial entities, as a well as a legacy of municipality-led marketing campaigns to attract the Asian textile and industrial sectors. This approach is reinforced by the active local business community characterised by the 3 distinct business chambers operating within the municipal area. These represent and support the various local businesses and are representative of local, Chinese, and Taiwanese businesses and investors. Despite the relatively positive economic outlook, the relationships between the municipality and external private stakeholders are not necessarily driven by the Local Economic Development Unit, the Unit has a more practical role in coordination, and monitoring and project implementation.
6. UMgungundlovu District Municipality

6.1. Municipal understanding of economic development function

The research summarised below has indicated that the municipal approach to economic development in uMgungundlovu District Municipality can be described as “sector support and poverty alleviation”. This “sector support and poverty alleviation” approach is evident through a sectoral focus on pro-poor, and agricultural support programmes within rural areas and local municipalities under the District Municipality’s jurisdiction.

6.2. Background and economic profile

Located in the Kwa-Zulu Natal midlands, UMgungundlovu is one of 11 district municipalities within the Kwa-Zulu Natal Province, uMgungundlovu District Municipality includes the following 7 local municipalities: Impendle, Mkhambathu, Mpofana, Msunduzi, Richmond, Umgeni, and uMshwathi. The total population of the District is predominantly rural and estimated at 1 017 763 (StatsSA, 2011 Census).

The District economy is dominated by that of the Msunduzi Municipality which contains Pietermaritzburg, which is the capital of the KZN province and seat of the Provincial Government. Many of the renowned education facilities,
sporting, commercial and health facilities are located within the Msunduzi Local Municipality. The overall District is characterised by low economic sector diversity, apart from Msunduzi, noting that the highest concentration of economic sectors and activities are located within Msunduzi Municipal area. Apart from agriculture and related agro-processing activities, manufacturing is a major contributor to the broader District economy. Firms involved in manufacturing are mainly located in Msunduzi, Mkham bathini (Camperdown) and uMgeni Municipalities, which correlate with the Provincial Strategic Economic Development nodes within of uMgungundlovu District, namely, Howick, Camperdown, Pietermaritzburg.

However, over the past decade there has been a decline in certain sub-sectors of the manufacturing sector including shoe production. Over this period the District has also experienced a significant increase in urbanisation and loss of land to non-agricultural uses. Further, commercial agriculture plays an important role in employment in rural areas where there are limited alternative opportunities. The agriculture, agri-processing and supplies industries are located primarily the rural areas of the District represented by the Eston and Noodsberg Mills, animal feed manufacturers De Heus and Meadow Feeds. Major producers of food products include National Chix and Willowton Oil (UMDM, IDP 2015/2016).

From a connectivity perspective, the three primary towns of the District are located along the N3 corridor, connecting Durban with Johannesburg. It is important to note that due to their location these are a feature of the Durban-Gauteng Logistics Corridor, a significant regional Strategic Infrastructure Development Project.

### 6.3. Evolution and history of economic development within the municipal area

The cultural and economic history of UMgungundlovu is intrinsically linked to the that of Pietermaritzburg. As the capital of the Kwa-Zulu Natal Province, Pietermaritzburg has a rich cultural history having been held by the Zulu Kingdom, the Vootrekkers, and the British colonists. The city currently hosts the KZN Provincial administration. As a result of the cultural history of uMgungundlovu District, the District Municipality has 24 traditional councils that form the local House of Traditional Leaders. These traditional councils spread across the seven local municipalities that form part of the District (Nxumalo, 2012).

From an economic perspective, the driver of the UMgungundlovu District is Msunduzi, and the economy of the District is strongly connected to that of its primary settlement. While it is reported that agriculture is the dominant economic activity outside of urban centres, the overall picture of the district is one that is strong in manufacturing (22%), finance-related activities (18%) and transport, storage and communication sectors (12%) (UMDM, IDP 2015/2016). However, the agriculture sector is currently facing significant threat from the national drought which has had a substantial impact on the sugarcane crops. Despite this decline, relative to other sectors, agriculture still plays an important role in both upstream and downstream economic activities many of which take place in the urban centres of the district.

The tourism sector in UMgungundlovu is characterised by lifestyle and events-driven tourism. Examples of these include the annual Comrades Marathon and the Dusi Canoe Marathon, the Midmar Dam, near Howick on the outskirts of Pietermaritzburg, which hosts the popular annual Midmar Mile swim. The Midlands Meander, situated between the city of Pietermaritzburg and the uKhahlamba-Drakensberg Park World Heritage Site, is began in approximately 1985 when several potters and weavers came together to create an arts and crafts route through the region. In addition, from cultural history perspective, the region holds the largest concentration of battlefields...
in South Africa and attracts thousands cultural tourists annually. The towns in the regional are also characterised by historical buildings many of which date back to the 1880’s.

Despite the rich natural and historical resources found within the District, challenges facing the municipality are understood to be driven by considerations include regional and global macroeconomic trends and are largely beyond the control of the District Municipality. Examples of these challenges include: competition in the manufacturing and textile industries such as cheap imports from the East; the effects of the global recession and its impact on business in the province which has a traditionally strong export-orientation; increasing costs associated with inputs into the manufacturing process; challenges to meet the needs of transport and infrastructure sectors through investment and maintenance; as well as government bureaucracy and its impact on business establishment (UMgungundlovu, IDP).

6.4. Economic policy environment

UMgungundlovu District Municipality’s primary approach to economic development is through Local Economic Development. The key policy problems that the framework was intended to address were set out in the National Local Economic Development Policy. The policy was meant to improve good governance, service delivery, and public and market confidence in municipalities, open up new opportunities for enterprise support and business infrastructure development, and introduces sustainable community investment programs (National LED Framework, 2012-2016).

While the District has developed its LED Framework to inform economic development within individual local municipalities, it is noted that LED has been re-defined and applied as per the local municipal interpretation of the local government economic development function. This trend is sound as it emphasises that economic development manifests differently in different places because of the local resources and capacity, it also provides an example of the District’s role as a coordinator. However, outside of Msunduzi, LED has become conceptualised as a tool to curb poverty, with a number of communities having raised their standard of living through participation in LED community based projects, focused on tourism, agri-business and small business enterprise sectors (World Bank, 2011).

In recent years, the main vehicle for the economic development mandate of local government has been the integrated development planning (IDP) process. However, it is clear that the outcomes of the IDP process is a five-year plan that focuses primarily on infrastructure development, where many of these infrastructure projects have a social outcome or are linked to local economic development projects and objectives. In these cases, the LED initiatives require land-based interventions that the District Municipality is not able to provide on its own.

In summary, the District economic development framework and projects are pro-poor and poverty alleviation-oriented. The District policy environment lacks the strength required to drive economic development within the region, however, it is well positioned to coordinate economic development initiatives and identify synergies between local municipalities to address the challenges of the District.

6.5. Networks and institutional arrangements

Networks and relationships were explored from the perspective of the uMgungundlovu District Municipality’s “Local Economic Development Section”. It was found that the central role off the District Municipality from an institutional
perspective is connecting the various local municipalities and coordinating projects to address regional concerns. As a result, strong connections exist between the municipality and the provincial Economic Development, Tourism and Environmental Affairs (EDTEA) department and COGTA, which both support project-based LED initiatives. The District supports the Province in coordinating the activities of provincial Agencies within the UMgungundlovu region, primary agencies active in UMgungundlovu include: iThala, TIKZN, KZN Growth Fund, DBSA and the IDC.

From a District-driven institutional perspective, it is apparent that the District Local Economic Development Forum is not well attended and, like any other LED Forums, is a feedback session on current projects instead of an opportunity to identify opportunities for private sector engagement or synergies between local municipalities. However, the latter function is evident in the Msunduzi LED Forum, which is well attended by both adjacent municipalities and local private sector stakeholders. This is an indication of the Tension between Msunduzi LED and District LED regarding influence and strategic focus. This tension is exacerbated through challenges regarding land and asset management, which are not within the ambit of the District Municipality, and severely limit the ability of the District to influence and drive economic development within the region.

In respect of Traditional Authorities, the Traditional Leadership Governance and Framework Act states that government may provide a role for traditional leaders in respect of economic development, however in practice this is not always realised due to practical implications (Nxumalo, 2012). UMgungundlovu District Municipality has 24 traditional councils that form the local House of Traditional Leaders. These traditional councils spread across the seven local municipalities that form part of the District (Nxumalo, 2012). The majority of rural areas in uMgungundlovu fall under the Ingonyama Trust and it is mainly the local municipality plays a facilitating role between Ingonyama Trust and cooperatives from case to case.

6.6. Organisational review

From an organisational perspective the economic development function is located within the “Economic Development and Tourism Division” which is located under the “Community Services Department”. As per the diagrams below, the department is divided into the “Local Economic Development Section” and the “Tourism Section”. The current location of the economic development function within the “Community Services Department” is in line with the current approach to economic development as a tool for poverty alleviation and skills development to address the socio-economic challenges experienced within the municipality, and particularly in the Districts’ rural focus areas.

The district municipality is currently going through an organisational review process which will result in changes to the organisational structure. Within the “Local Economic Development Section” there are currently there are two positions that have been filled and 6 vacant posts.
Figure 17: High-level organisational structure, UMgungundlovu District Municipality

Figure 18: Organisational structure of the Economic Development and Tourism Division, UMgungundlovu District Municipality

Table 7: Organisational capacity overview, UMgungundlovu District Municipality

<table>
<thead>
<tr>
<th></th>
<th>Within the Municipality</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>What is the total number of staff employed by the municipality?</td>
<td>434</td>
</tr>
<tr>
<td>1.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2</td>
<td>What is the total number of vacant posts within the municipality?</td>
<td>52</td>
</tr>
<tr>
<td>2</td>
<td>Within the Local Economic Development Unit</td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>What is the total number of staff within the unit?</td>
<td>3</td>
</tr>
</tbody>
</table>
2.2. What is the total number of vacant posts within the unit?  6
2.3. How many staff members have tertiary qualifications?  3

Table 8: Capacity analysis of the Economic Development Unit, UMgungundlovu District Municipality

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Position</th>
<th>Years employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Masters in LED</td>
<td>Manager: Economic Development &amp; Tourism</td>
<td>Over 20 years</td>
</tr>
<tr>
<td>Post graduate diploma</td>
<td>Coordinator: LED</td>
<td>15 years</td>
</tr>
<tr>
<td>Diploma</td>
<td>IDP Manager</td>
<td>20 years</td>
</tr>
</tbody>
</table>

Table 9: Financial overview of the local economic development department, UMgungundlovu District Municipality

<table>
<thead>
<tr>
<th>1</th>
<th><strong>Within the Municipality</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.</td>
<td>What is the total annual budget of the municipality?</td>
<td>R602.2 Million</td>
</tr>
<tr>
<td>2</td>
<td><strong>Within the Local Economic Development Section</strong></td>
<td></td>
</tr>
<tr>
<td>2.1.</td>
<td>What is the total annual budget of the unit?</td>
<td>R5 Million</td>
</tr>
<tr>
<td>2.2.</td>
<td>What was the total annual budget requested by the unit?</td>
<td>R5 Million</td>
</tr>
<tr>
<td>2.3.</td>
<td>Was the unit able to successfully spend its budget in the last financial year?</td>
<td>Yes</td>
</tr>
</tbody>
</table>
6.8. Trends and findings

The following observations and findings have emerged out of the study of the municipal economic development function in the UMgungundlovu District Municipality

The UMgungundlovu District Municipality has adopted an approach to local economic development that can be described as "sector support and poverty alleviation". The research summarised above has indicated that the municipal approach to economic development in UMgungundlovu District Municipality can be described as "sector support and poverty alleviation". This "sector support and poverty alleviation" approach is evident through a sectoral focus on pro-poor, and agricultural support programmes within rural areas and local municipalities under the District Municipality’s jurisdiction.

The District as a facilitator of economic development within strategic sectors over which it has a comparative advantage, such as agricultural activities and agri-processing related activities. It was found that the central role of the District Municipality from an institutional perspective is connecting the various local municipalities and coordinating projects to address regional concerns. As a result, strong connections exist between the municipality and the provincial Economic Development, Tourism and Environmental Affairs (EDTEA) department and COGTA, which both support project-based LED initiatives. The District supports the Province in coordinating the activities of provincial Agencies within the UMgungundlovu region, primary Provincial agencies active in UMgungundlovu include: iThala, TIKZN, KZN Growth Fund, DTI, DBSA and the IDC.

The District economy is closely tied to the economy of Msunduzi Municipality which is a key driver of economic development within the District. Despite a degree of economic sector diversity within Msunduzi, it is reported that agriculture is the dominant economic activity outside of urban centres within the District, despite that the overall picture of the District which is associated with strong in manufacturing (22%), finance-related activities (18%) and transport, storage and communication sectors (12%) (UMDM, IDP 2015/2016). As a result of this sector polarisation, the District Municipality plays a significant role in agricultural sector support. However, the agriculture sector is currently facing significant threat from the national drought which has had a substantial impact on the sugarcane crops. Despite this decline, relative to other sectors, agriculture still plays an important role in both upstream and downstream economic activities many of which take place in UMgungundlovu.

Key challenges to economic development identified in District strategies are beyond the scope of the District Municipality, including macroeconomic conditions, aging infrastructure, and the migration of skilled labour of the District. Despite the rich natural and historical resources found within the District, challenges facing the municipality are understood to be driven by considerations include regional and global macroeconomic trends and are largely beyond the control of the District Municipality. Examples of these challenges include: competition in the manufacturing and textile industries such as cheap imports from the East; the effects of the global recession and its impact on business in the province which has a traditionally strong export-orientation; increasing costs associated with inputs into the manufacturing process; challenges to meet the needs of transport and infrastructure sectors through investment and maintenance; as well as government bureaucracy and its impact on business establishment (UMgungundlovu, IDP).

Challenges facing District’s ability to drive or influence economic development with their regions include the inability to own, acquire or release property, as well as limited ability to generate revenues, have resulted in a institutional
tension District Municipality and the Msunduzi Local Municipality regarding influence and resources. In many ways the District is an arm of Provincial government. From a District-driven institutional perspective, it is apparent that the District Local Economic Development Forum is not well attended and, like any other LED Forums, is a feedback session on current projects instead of an opportunity to identify opportunities for private sector engagement or synergies between local municipalities. However, the latter function is evident in the Msunduzi LED Forum, which is well attended by both adjacent municipalities and local private sector stakeholders. This is an indication of the Tension between Msunduzi LED and District LED regarding influence and strategic focus. This tension is exacerbated through challenges regarding land and asset management, which are not within the ambit of the District Municipality, and severely limit the ability of the District to influence and drive economic development within the region.
7. Synthesis

“At one level, a legacy of inequality and disempowerment needs to be addressed through explicitly targeted pro-poor interventions. At another level, the requirement of trying to encourage economic growth in an increasingly globalised economy poses significant challenges to local authorities” (Nel et al, 2003: 223).

As per the quote above, it is clear that the balance between pro-poor and pro-growth approaches to economic development has been a fundamental conceptual challenge regarding the implementation of the municipal economic development function since the establishment of local government in its current form. It is clear that the municipalities reviewed in this study fall in varying conceptual locations along the pro-poor to pro-growth spectrum. Reasons for this are embedded in the outcomes of the four-pronged approach as described in Chapter 6 and findings detailed in the four case study chapters above. Primarily, it is clear that these “reasons” or the logic behind the individual responses to the municipal economic development function are based on the history or evolution of the local economy. As a result, programmes and strategies tend to reflect the comparative and strategic advantages of the municipal area. The following chapter provides a more detailed discussion of the challenges regarding comparison, and provides a framework to enable the identification of strategic considerations and project insights.

7.1. Discussion

The case study municipalities were selected due to their variation in population, size, as well as institutional and organisational capacity. Further, they represent an example of each of the core municipal categories within the republic, namely: a metropolitan municipality (eThekwini), a municipality containing a secondary city (uMhlathuze), a municipality containing a small town (Newcastle); and a district municipality (uMgungundlovu). Due to the limited sample-size of this initial research project, these examples of municipal forms cannot definitively identify opportunities and challenges affecting all municipalities of that category or of municipalities displaying similar characteristics. However, they can provide an indication of overarching trends and themes opportunities and challenges relating to the institutional response to the economic development function within local governments.

Due to the variation between the case study municipalities an evaluation or comparison of each case study municipality’s approach to economic development may not yield useful results. In other words, a direct evaluation or comparison of the cases studies against each other may result in an emphasis of difference, and make value judgements difficult to articulate with the limited scope to identify policy statements to explore further in other municipalities. However, an understanding of the evolution of the municipal approach to economic development and the policy economy surrounding the decision-making process may identify transferable insights suitable to inform policy approaches enabling successful approaches to the economic development function within local government.

Based on the study findings, it is clear that each case study municipality has a slightly different approach to the economic development function, and this approach is informed by local context, as well as institutional and organisational capacity. A key initial finding regarding the institutional positioning of the municipality is that, overall, local economic development units as well as municipalities more broadly are not “driving” economic development, but are playing a role in “facilitating” access to economic opportunities or providing necessary infrastructure to support investment and business development within strategic municipal areas. The framework discussed below
builds the narrative further, based on the evidence base presented earlier in this report, to delve deeper into this key observation.

### 7.2. Synthesis framework

Based on the discussion above, the synthesis framework aims to provide a tool for understand if and how municipalities are responding to the economic development function in a manner that enables local government to drive economic development. To this end, the synthesis framework asks a series of questions within a six category evaluation structure which provides a mechanism for case study review, and identification of high-level strategic considerations, as well as more detailed project insights. The six categories and respective questions are listed below:

- **Political economy of the municipality**
  - How are decisions relating to the institutional and organisational approach to economic development made within the municipality?
  - Do these decision-making processes indicate that the municipality is aiming to drive economic development?

- **Local historical evolution of economic development**
  - What is the historical institutional role of local government in driving or influencing the local economy?

- **Municipal policy context relating to economic development**
  - Does the local policy and framework context provide an enabling environment for the municipality to drive economic development?

- **Influence of the municipality over local networks and the institutional ecosystem**
  - What relationships exist between the municipality and other actors to enable and facilitate economic development?

- **Municipal organisational considerations**
  - How is the economic development function reflected in the organisational structure?
  - Within the structure, how significant is the economic development function in terms of organisational capacity?
  - How does the organisational structure reflect the municipal interpretation of the economic development function?

- **Municipal financial considerations**
  - How is the significance of the economic development function reflected in the municipal budget allocation?
7.3. Synthesis narrative

As alluded to earlier in this chapter, after applying the synthesis framework to the evidence gathered in the case study development discussion, it is clear that each of the case studies show a unique approach to the municipal economic development function. The following summaries distil this narrative for each of the case study municipalities:

- **The eThekwini municipality has adopted a development facilitation approach to local economic development.** Through policy it is clear that the municipality understands economic development as a central component of its metropolitan strategy. This approach is noted through the municipality’s partnerships with strategic private sector actors, and a focus on attracting and retaining investment within the municipal area through investing in urban infrastructure and improvement districts.

- **The uMhlathuze Municipality has adopted an approach to local economic development that can be described as “enterprise and business support oriented”**. This “enterprise and business support” approach is evident through the municipality’s focus on bridging the gap between established industrial operations and smaller local businesses by supporting local business development through significant SMME support and at the same time initiating skills development programmes. However, this approach is changing, and the municipality is moving toward facilitating investment in the region and seeking ways to increase and improve partnership opportunities. This approach to economic development is a direct response to the employment and economic access gap between established mineral and industrial industries with limited local value chains, and smaller local business opportunities.

- **The Newcastle Municipality has adopted an approach to local economic development that can be described as “business support and facilitating investment”**. This “business support and investments” approach is evident through the relationships with local business and actively marketing the strategic advantages of the municipality through the ability to provide electricity and market the municipality as suitable to industrial business establishment and investment.

- **The uMgungundlovu District Municipality has adopted an approach to local economic development that can be described as “sector support and poverty alleviation”**. The research summarised above has indicated that the municipal approach to economic development in uMgungundlovu District Municipality can be described as “sector support and poverty alleviation”. This “sector support and poverty alleviation” approach is evident through a sectoral focus on pro-poor, and agricultural support programmes within rural areas and local municipalities under the District Municipality’s jurisdiction.
8. Case study summary and trends synthesis

As per the case study approach as illustrated in the diagram below, the following tables provide a summary of the key research outcomes for each case study municipality.

**Figure 19: Approach to case study development**

8.1. History and evolution of the local economy

As per the summary in Table 10, it is clear that each of the municipalities have been established through varied historical narratives, and that each of these narratives have influenced the local economy and the strategic comparative advantage of each region. The historical narrative for each case study municipality highlights the key drivers of the economy establishment and development within each place. In most cases, it is important to note, that the government – i.e. national, or local government – have not been key drivers of the either the establishment or development of the broader economy, with the notable exceptions of Pietermaritzburg in Msunduzi within the uMgungundlovu District Municipality, and the international marketing efforts of Newcastle Municipality.
8.2. Policy context

As per the summary in Table 11, it is apparent that there is a challenge regarding the integration of economic development into all municipal departments. While all municipalities reviewed have a current Integrated Development Plan (IDP), these content of these largely reflect the independent departments that have compiled each chapter, and as such are characterised by a collection of sector plans rather than an integrated document. Further, all the municipalities reviewed have developed Local Economic Development Frameworks and Tourism Strategies, however, it is noted that the implementation of these strategic documents is subject to a range of factors outside of the influence of the department championing these strategies, such a municipal budget allocations and the macro-economic context, resulting in longer term implementation challenges.
Table 11: Summary of case studies regarding the municipal policy and framework context

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Case Study</th>
<th>Integration and Synergies Between Local Municipalities Are a Challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethekwini</td>
<td>IDP integration is a challenge</td>
<td>The Roadmap, currently under review, will bridge the strategic policy</td>
</tr>
<tr>
<td>uMhlathi</td>
<td>Appropriate policy and framework</td>
<td>gap identified within the existing policy and framework context</td>
</tr>
<tr>
<td>uMgungundlovu</td>
<td>Possible policy and leadership gap at</td>
<td>Limited tangible strategic responses</td>
</tr>
<tr>
<td>the national level</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8.3. Networks and institutions

Regarding networks and institutional relationships as noted in Table 12 below, it is apparent that the majority of relationships between the local economic development units and both government and non-government partners are project-based or “gentlemen’s agreements” made in good faith between programme champions and potential investors, partners or collaborative institutions. As a result, these partnerships are not characterised by signed contracts or service level agreements unless these are necessary to manage project risk. It is noted that the majority of partnerships related to economic development are not initiated or located within “Local Economic Development Units”, rather through more politically authoritative structures such as a mayor or municipal manager’s office. Partnerships are strongest in relation to catalytic or strategic projects compared with smaller community-based projects. This can result in an institutional tension between the municipal strategy departments, often located within the mayor or municipal manager’s office, and the “Local Economic Development Units”. 
### Table 12: Summary of case studies regarding networks and institutional arrangements

<table>
<thead>
<tr>
<th>Organisational considerations</th>
<th>uMHLATHUZE</th>
<th>Good international connections</th>
<th>Good connections to provincial EDTEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Municipal focus on partnerships with non-government actors*</td>
<td>* Historical relationships with dominant industries*</td>
<td>* Newcastle’s of the World*</td>
<td>* Agricultural forum is well supported*</td>
</tr>
<tr>
<td>* Functional platforms for engagement*</td>
<td>* Limited success of the LED Forum*</td>
<td>* Active business chambers*</td>
<td>* Supporting role to local municipalities*</td>
</tr>
<tr>
<td></td>
<td>* Initiatives to establish the local Tourism Forum*</td>
<td>* Positioning as strategic location for the textile industry*</td>
<td>* Tension between Msunduzi LED and District LED regarding influence and strategic focus*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>* Challenges regarding land and asset management*</td>
</tr>
</tbody>
</table>

### 8.4. Organisational considerations

The Local Economic Development Units are located deep in the organisational administrative structure, at a very low level of authority. This limits their ability to compete with other departments for budget necessary to implementation long-term sustainable LED projects, and influence other departments into considering economic development in their planning and projects. This location of the Local Economic Development Units emphasises the understanding of LED as not a core municipal function or service. This interpretation of the research is supported by LED department funding and staff allocations, as illustrated in [Error! Reference source not found.].

### Table 13: Summary of case studies regarding organisational considerations

<table>
<thead>
<tr>
<th>Organisational considerations</th>
<th>uMHLATHUZE</th>
<th>Good international connections</th>
<th>Good connections to provincial EDTEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Change in messaging regarding LED unit*</td>
<td>* Sectoral focus on industrial, tourism, agriculture, SMMEs*</td>
<td>* Sectoral focus on industrial, tourism, agriculture, SMMEs*</td>
<td>* Agricultural forum is well supported*</td>
</tr>
<tr>
<td>* Specific sectoral focus*</td>
<td>* Communication and collaboration between departments*</td>
<td>* Good interdepartmental connections*</td>
<td>* Supporting role to local municipalities*</td>
</tr>
<tr>
<td>* Well capacitated structure and officials*</td>
<td>* Strong leadership*</td>
<td>* Capacity constraints*</td>
<td>* Tension between Msunduzi LED and District LED regarding influence and strategic focus*</td>
</tr>
<tr>
<td>* Good internal networks supported by holistic structure*</td>
<td>* Organisational linkage between IDP and LED unit*</td>
<td>* Long-serving officials, continuity*</td>
<td>* Challenges regarding land and asset management*</td>
</tr>
</tbody>
</table>
8.5. Strategic Advantages

In addition, with the above findings in mind, it is useful to come back to the discussion of municipal strategic advantages regarding the ability of local governments to influence economic development within their municipalities. The inferred interpretation of these local government tools and characteristics which enable the economic development function are briefly discussed below:

- **Municipal Councils exercise control over municipal budget allocations:** However, allocations are often relative to previous year’s allocations. Further, departments compete for funding, and decisions around allocations are often made through the political economy of decision-making which underpins the Council structure.

- **Municipalities act as planning authority and are able to acquire, release and manage their own assets (such as land):** As a planning authority, municipalities review and respond to private sector development proposals. Since the municipality is not well positioned to act as a developer, it has limited ability to successfully release land to stimulate the economy and support economic development objectives. This last point is compounded by the fact that while many municipalities own land, these are not necessarily well located and as a result do not have significant development potential. Despite the limitations, municipalities in this study have a keen understanding of their role as planning authorities and the positive contributions this can make toward economic development.

- **Municipalities are located within close proximity to communities, increasing the potential to understand and build relationships with these communities:** Municipalities have the potential to understand local needs and contexts better than any other governing institution. However, there are instances where economic development initiatives are constrained by government bureaucracy and systems.
It is noted that each of these need to, firstly, be understood and critical components of the municipal economic development function. Secondly, these opportunities need to be unblocked and leveraged to ensure that local governments provide input and direction into municipal economic development, to balance the poverty-alleviation and pro-growth narratives.
9. Findings and insights

Based on a synthesis of the approach taken by the case study municipalities toward the implementation of the economic development function, a series of overall trends have emerged. This chapter unpacks these in two sections, firstly, findings based on the evidence provided earlier in this report; and secondly, the project insights section reveals an interpretation and deeper understanding of the municipal economic development function, identifying opportunities to unblock the potential of municipalities to successfully facilitate economic development.

9.1. Project findings

Centred around the core project findings, the project findings discussed below a direct outcome of the case study research of a small sample of municipalities in Kwa-Zulu Natal, as described earlier in this report. These key project findings highlight the complexity of the economic development concept, and the key role that local governments are able to play to support the economic development sector, as follows:

9.1.1. Findings related to the conceptual approach towards the economic development function

- **The core functions of local government relate to service delivery.** Integrated development planning aims to facilitate effective and efficient service delivery outcomes across all municipal departments. Regarding the economic development function, municipalities are expected to facilitate an environment that supports economic development in a way that enables various actors (i.e. private and public), to engage in economic activities. The research shows that sufficient levels of service delivery across all municipal departments and sectors is necessary to support economic development within municipalities, regardless of the size of their population or economy.

- **Economic development is a complex concept, and South African policy approaches have varied from poverty-alleviation focussed to pro-growth focus directions.** As a result, we have found that the understanding and practical interpretation of the function varies across the municipalities explored in this study based on their size, social and economic history, local strategic advantages, municipal capacity, and leadership. The research illustrates that municipalities describe the function in terms of what is important to them. This has led to local innovation in the economic development sector, particularly regarding municipal structures and functions to leverage these local strategic advantages. This is a positive example of how local governments are able to lead the development and maturity of the economic development sector, influence their own futures, and inform best practice.

- **The study highlighted that, across all four municipalities explored, there is a shared understanding of the link between spatial planning and economic development.** In terms of organisational structures, all the case studies in this study, clustered local economic development departments within close organisational proximity to spatial planning and land use management functions. Interviews and research emphases that the significant role of land management in driving economic. The role of the municipality as a planning authority is central a central component of the ability of municipalities to drive economic development and ensure more inclusive economic development.
• The South African trends regarding approaches to economic development have moved away from a purely poverty alleviation approach on economic development. However, this evolution of the South African approach is not reflected in many of the case studies explored through this study. According to the study, the existing municipal organisational structures support a particular, poverty-alleviation interpretation of the local economic development function. The local economic development units and departments explored as part of this study are often confined by these municipal organisational structures that reinforce the original approach to economic development. As a result, the strategic economic development function is often located outside of local economic development units and departments.

9.1.2. Findings relating to the municipal structures

• Economic development is a complex concept, with success relying on various actors and the local economic context. Therefore, while activities related to economic development are synonymous with facilitating job creation and business investment, in reality the approach to the municipal economic development function is not a “one size fits all”, and the actions taken to support economic development vary from municipality to municipality. The research shows that the municipalities included in the study each focussed on different activities to facilitate economic development. As a result, and rightly so, the case study municipalities interpret the function differently and innovate to meet their own needs and determine their own futures.

• Municipal organisational structures and the location of local economic development departments tell us a lot about each municipality’s interpretation of the economic development function. In most the case study municipalities, the municipal economic development function appears to be divided into a practical LED function and a strategic planning LED function. The research indicates that within the case study municipalities, the local economic development units are predominantly located in the lower orders of the municipal organogram. In other words, these LED units are located to perform a practical function, and are not well located to influence municipal strategy. In addition, the capacity within the case study municipalities varies with many local economic development practitioners not having limited formal training. The division of the municipal economic development function, as described above, in some cases resulted in duplication of work.

• Case studies support these observations through the following approaches to the interpretation of the municipal economic development function:

  • eThekwini municipality (Metropolitan Municipality): has adopted a “development facilitation” approach. Through policy it is clear that the municipality understands economic development as a central component of its metropolitan strategy, has a focus on attracting and retaining investment within the municipal area through investing in urban infrastructure and improvement districts.

  • uMhlathuze Municipality (Intermediate city): has adopted an “enterprise and business support oriented” approach. This “enterprise and business support” approach is evident through the municipality’s focus on bridging the gap between established industrial operations and smaller local businesses by supporting local business development through significant SMME support and at the same time initiating skills development programmes.
• **Newcastle Municipality (Small town):** has “business support and facilitating investment” approach, evident through the relationships with local business and actively marketing the strategic advantages of the municipality and marketing the municipality as suitable to industrial business establishment and investment.

• **umgungundlovu District Municipality:** has adopted a “sector support and poverty alleviation” approach, evident through a sectoral focus on pro-poor, and agricultural support programmes within rural areas and local municipalities under the District Municipality’s jurisdiction.

- Due to this complexity, the findings of the research clearly indicate that municipalities do not drive economic development, but rather facilitate economic development through service delivery and partnerships. Research and anecdotal evidence suggest that local economic development revolves around relationships, and the ability of the municipality to maintain these relationships. However, the findings regarding structure suggest that the LED units are not well positioned to establish or maintain strategic relationships. These relationships include those with government departments from all spheres.

### 9.1.3. Findings relating to the institutional systems that support the economic development function

- **Local economic development is closely linked to service delivery and integrated development planning.** This interpretation of the economic development function is critical to facilitating economic development opportunities. It is also linked to the inclusive economic development function as identified by the Integrated Urban Development Framework and emphasises the role of municipalities to promote economic development, as noted in the White Paper on Local Government. As a result of this, municipalities should be able to play a driving role in facilitating economic development.

- **However, the research has indicated that throughout their history and development, economic development and investment within the case study municipalities were not driven by the municipality, but rather by private interests and businesses.** As a result, it is clear that the success long term local economic development revolves around the ability of municipalities to establish relationships with private actors who are able to support the development of a more robust, diversified economy. However, these activities require robust internal municipal systems.

- **The municipal organisational systems tell us a lot about the interpretation of the municipal economic development function.** The degree to which the economic development function is integrated within municipal planning indicates how the municipality has interpreted the function. Further, in theory and practice, organisational systems are able to overcome potential challenges or inefficiencies created by organisational structures. However, the research indicates that the municipalities included in the study struggled to utilise municipal integration and planning systems to integrate the municipal economic development function, despite clustering the LED units with spatial planning and land use management functions.

- **The limited success of integration systems, may be a result of the traditional focus on an organisational structures response to economic development function implementation.** It is noted that the institutionalisation and bureaucratisation of the economic development function has resulted in an
organisational response in the form of local economic development units. The study found that the institutionalisation of LED has largely promoted LED through organisational structures, resulting the prevalence of LED units, and these units have been designed and founded with particular activities in mind, related primary to practical economic development projects and not strategic economic development planning.

9.1.4. Problem statement refinement

As a result of these findings and the research undertaken, the original project problem statement has been revised and refined as per Figure 21. The municipal economic development function is required to balance the poverty-alleviation and pro-growth strategies along the economic development spectrum. Limited strategic institutional coordination and municipal economic planning integration has contributed to an institutional focus on small scale, short term, poverty alleviation projects, while attempting to address pro-growth and local business concerns. The current most prevalent organisational structures reinforce these trends.

![Figure 21: Project problem statement review](image)

9.2. Project insights

Despite a small sample size, this study had provided key insights into the local economic development sector. Based on the study findings described above, the following insights emphasise the need to energise debate in order to foster a deeper understanding of the economic development function to develop sustainable local government systems that are able to meet service delivery goals.

9.2.1. Insights related to the conceptual approach towards the economic development function
• The study indicates that there appears to be a shared understanding of municipal systems and processes which facilitate and have the potential to drive economic development in a particular direction. These opportunities include allocating and spending the municipal budget, determining the municipal organisational structure, undertaking integrated municipal planning, and exercising the municipality’s role as a planning authority (i.e. influencing development). As a result of these systems, municipalities are strategically positioned to influence economic development within their areas.

• However, it is clear from the study that municipalities are often not the key drivers of economic development. Rather, private sector actors are better positioned to do business, develop property, and influence the economic direction or prospects of these municipalities. This adds an additional level of complexity to the municipal economic development function, as it emphasises the need to partner with the private sector to ensure that development is aligned to the municipal objectives. Further, in municipalities with a weak private sector, or one that is too niche or focused on a sector with limited forward and backward linkages, economic development is a real challenge. How these municipalities are able to facilitate inclusive economic development needs to be further explored.

• As mentioned in the findings section, the South African approach to economic development supports a spectrum of poverty-alleviation and pro-growth approaches, this emphasises the need to support local governments to determine their own futures and sectoral economic development focus areas. However, traditional LED departments tend to focus on “pro-poor” projects. This approach is reinforced by the institutionalisation and resulting bureaucratisation of the economic development function through units with a focus on poverty alleviation. These structures potentially limit the ability of local economic development units to adapt to the evolving more complex understanding and approach to economic development.

• Improved evidence will improve practice, and conducting similar in-depth studies will be valuable to support the evolution of the collective understanding of the economic development function and determine best practice regarding the institutionalisation of the function in local government organisational structures. Further studies should explore the political economy of decision-making, to better understand how economic development objectives are prioritised within municipalities.

9.2.2. Insights relating to the municipal structures

• Municipalities should continue to use municipal planning and systems to determine their own identities and future. The research suggests that there is a risk associated with strict best practices. Prescriptive institutional best practices may force municipalities to spread their resources too thinly, and may distract from a focus on the strategic advantages of the municipality.

• Through traditional LED and poverty alleviation-oriented interventions, municipalities are undertaking an important function. The private sector is not well positioned to address these issues, despite evidence from the case studies that suggests large-scale corporate social responsibility (CSR) initiatives can be valuable when facilitated through the local municipality. A review of the function may learn from lessons identified within the eThekwini and uMhlathuze examples where the distinction between practical and strategic LED were acknowledged, and organisational structures were renamed and clustered accordingly.
• The research highlighted that the municipal mandate regarding economic development in relation to traditional authority areas is unclear. In respect of Traditional Authorities, the Traditional Leadership Governance and Framework Act states that government may provide a role for traditional leaders in respect of economic development, however in practice this is not always realised due to practical implications. Municipalities are able to provide infrastructure and services, but cannot locate economic development projects and invest in land that it does not own. This limits the type of economic development projects and sectors that are accommodated in these areas.

• Approach to municipal budget allocations, competition between departments, fractured economic development function and the illusion of an “unfunded mandate”. It is noted that municipal budget allocations are often exercised in a relative manner, as per the political economy of decision-making.

• The municipal mandate regarding economic development in relation to traditional authority areas is unclear. In respect of Traditional Authorities, the Traditional Leadership Governance and Framework Act states that government may provide a role for traditional leaders in respect of economic development, however in practice this is not always realised due to practical implications. Municipalities are able to provide infrastructure and services, but cannot locate economic development projects and invest in land that it does not own. This limits the type of economic development projects and sectors that are accommodated in these areas.

9.2.3. Insights relating to the institutional systems that support the economic development function

• The research indicates that the municipalities included in the study struggled to utilise municipal integration and planning systems to integrate the municipal economic development function. This may be a result of the prevailing interpretation that economic development function is located within specific units, and is not integrated across the municipality.

• Improved evidence will improve practice, and conducting similar in-depth studies will be valuable to support the evolution of the economic development function and determine best practice regarding the institutionalisation of the function in local government organisational structures. Further studies should explore the municipal systems underpinning the economic development function within municipalities.

9.2.4. Concept synthesis

Despite the small sample size and institutional structure-oriented research, it is apparent that the approach to local economic development, as discussed through the problem statement, has resulted in an institutional split between poverty-alleviation oriented strategies and pro-growth strategies. It is clear, that particularly regarding the This often uncoordinated response to the economic development function has resulted in inefficiencies in the municipal system. Based on this study’s findings and insights it is critical that the economic development function is understood as an integrating function, to facilitate the objectives of integrated development planning, as illustrated in Figure 22.
Figure 22: Concept synthesis
10. Recommendations

The project findings and insights highlighted above, have informed the following recommendations to support the refinement of the economic development function. Economic development is central to social upliftment, poverty alleviation, and supporting South Africa’s transformation journey. As a result, key recommendations explore how to unlock the potential of local governments to support these objectives. As per the findings and recommendations chapter, this chapter is structured as per the three core messages emerging from the study. Seeking to be action-oriented, these recommendations are clustered around three core questions, namely, (1) How can the economic development function be redefined? (2) How can municipalities development partnerships to support the economic development function? (3) How can municipalities effectively integrate the economic development function?

10.1. How can the economic development function be redefined?

- Review the economic development function through a discussion of roles and responsibilities of all spheres of government, in order to bring clarity and direction to the municipal economic development function. The second concept note in this series unpacks this topic, and emphasises that in most case studies explored through this research, municipalities are currently not driving economic development. However, clearer roles and responsibilities of various government actors, may improve efficiencies and the effectiveness of the municipal economic development function, and should be better defined.

- Redefine and review the systems and arrangements to support a more integrated, efficient and impactful municipal economic development function. Economic development is a complex concept, and successful local economic development requires the function to be integrated into municipal systems and planning. However, the research has indicated that on one hand, the practical, community-oriented, poverty alleviation, and inclusive economy function is located within local economic development units, and on the other hand, the more strategic, pro-growth element of the function is located elsewhere in the municipality. The components of the function need to be explored and mechanisms to integrate these into municipal systems and structures need to be further explored.

- Through the development and implementation of the IUDF, it is critical that relevant national departments must support and energise the debate regarding economic development function in alignment with the findings of this report. The IUDF should drive the debate and facilitate the review and reconfiguration of the roles and responsibilities of government and non-government stakeholders, as discussed in the second concept note of this series.

10.2. How can municipalities development partnerships to support the economic development function?

- Local government cannot drive economic development on its own, however, it has the municipal systems and organisational tools to realise its own future. In order to take LED forward and address the challenges facing the interpretation of the function, it is necessary to explore how all actors can more uniformly interpret the roles and responsibilities associated with the function.
• Through the development and implementation of the IUDF, it is critical that relevant national departments must support and energise the debate regarding economic development function in alignment with the findings of this report. The IUDF should drive the debate and facilitate the review and reconfiguration of the roles and responsibilities of government and non-government stakeholders.

10.3. How can municipalities effectively integrate the economic development function?

• It is necessary to review the interpretation of the function from a municipal systems perspective. Explore how the municipal economic development function can be better integrated into municipal structures and systems.

• Through the development and implementation of the IUDF, it is critical that relevant national departments must support and energise the debate regarding economic development function in alignment with the findings of this report. The IUDF should drive the debate and facilitate the review and reconfiguration of the roles and responsibilities of government and non-government stakeholders.
11. Way forward

As argued in this report, this study has found that a deeper understanding of the municipal economic development function as an integrating function, is critical to ensure economic development and service delivery in municipalities across South Africa. Municipalities are well positioned to facilitate economic development within their jurisdictions, but cannot drive economic development on their own. Further, while the traditional approach to local economic development is dominant in the municipalities explored as part of this study, it is clear that the economic development function is being refined, and municipalities are beginning to address both the poverty-alleviation and pro-growth aspect of economic development.

In order to respond to the project recommendations, the following way forward is recommended:

- Using the concept notes to stimulate debate and support current debates regarding the national, provincial, district, and municipal roles and responsibilities regarding the economic development function.
- Acknowledge that all municipalities are inherently different and that best practice should not be prescriptive regarding organisational structures or staffing requirements.
- Delve deeper into the municipal systems underpinning and reinforcing the status quo, identify blockages, and explore opportunities to better integrate the economic development function into municipal planning systems. Leveraging on these project insights, and a next step should include testing these ideas in a municipality and using best practice opportunities to develop frameworks for other municipalities to develop their own, context specific and appropriate structures and systems to enable economic development.