



Principles for Local Economic Development: Options for South Africa

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1 What is Local Economic Development (LED)?

Defining LED is no easy task. One way of trying it anyway is by saying what it is not:

- LED is not industrial policy. It is also not identical with SMME promotion (though the latter may be part of LED).
- LED is not regional planning. Planning can make an important contribution to LED. But while there is often economic development without anybody having planned for it, the process of planning does not secure that there is subsequent economic dynamism.
- LED is not community development. Community development is about solidarity – it is about self-help groups, mutual assistance and voluntary work to help the disadvantaged and solve health, education, housing and other problems. LED is about competitiveness – it is about companies thriving in competitive markets and locations thriving in a competitive, globalised world.

So what then is LED? Mostly, it is a process that involves a number of projects. Let us first try to describe LED by giving a few examples of typical LED projects:

- Different stakeholders from one sector, for instance tourism, come together to discuss, formulate and propagate a joint image promotion initiative for a location (e.g. municipality, district).
- Private business and council join forces to attract a foreign company which processes the products manufactured by a major local company.
- The council streamlines regulations and sets up an office which assists businesses in understanding and complying with regulations (e.g. how to obtain a permit, how to fill out forms, etc.).



- The local Business Chamber organises a scheme where experienced businesspeople dedicate two hours per fortnight to coach emerging entrepreneurs.
- Council and business associations organise an annual fair for local products.

These examples lead us to a more analytical definition of LED: it is about local activities to make markets work better. It is not about distorting markets, and it is not about substituting them. LED aims at remedying market failures such as barriers to entry, information problems and high transaction costs. LED is based on projects like those mentioned before. LED is not about projects such as helping three ladies to raise chicken, or throwing a heap of money at a few people who want to open a funeral parlour (without any prior experience in the sector), or setting up hawker stalls. LED is about creating favourable framework conditions for business, not about running businesses. Running a business is the task of risk-accepting entrepreneurs. The core idea of LED is to make the risks involved in running a business calculable, and to make sure that the market for business ideas can work properly.

2 General Principles for LED

Yet another way of defining LED is by formulating a few guiding principles:

- LED aims at creating favourable locational factors, i.e. qualities which make your place a good place to do business. This includes obvious elements such as improving the infrastructure and training workers, but also less obvious elements such as the business-mindedness and efficiency of local administration.
- LED aims at promoting business. This can be existing businesses, start-ups or external companies coming into your location. You would also look at linking things: promote and support spin-offs and subcontracting, attract investors which fit nicely into the local economic structure, and consider franchises as a source of new local businesses. At the same time, LED must never create unfair competition for existing businesses, in particular by subsidising some companies to the detriment of others. It may often be justified to support start-ups, even financially, but this must be based on a clear understanding of barriers to entry (e.g. due to economies of scale) and other types of market failure, and it must be clear that this is a fixed-term support.
- LED aims at making local markets work better. It aims at creating places and opportunities to match supply and demand, as well as to discover, propagate and promote new business opportunities.
- LED aims at making better use of locally available resources. Instead of complaining about the difficulties of finding adequate advisors for the Local



Business Service Centre, why not involve experienced businesspeople and managers in coaching both entrepreneurs and advisors?

It is important to note that LED involves very different target groups. A multinational company that may invest in your location is as much a target of LED activities as is the young black unemployed with limited skills who have some entrepreneurial talent. LED is about small and big things, and it includes everything from very modest to very fancy activities. What all this must have in common is business thinking. LED is not social work. The guiding principle of LED is competitiveness. You want to make sure that your location has qualities that are competitive with those of other locations, so that companies choose your place rather than going elsewhere. And you want to make sure that local markets work, so that manifold business opportunities arise.

It is also important to note that LED is different from IDP. Whereas the IDP tends to focus at needs, problems and bottlenecks, LED ought to be driven by opportunities. IDP looks at long-term investment, whereas LED can keep itself quite busy for a while by looking only at short-term opportunities. IDP involves a long and intensive process of mobilising communities, whereas LED can be based on the activities of only a limited number of stakeholders. There is no need to form a consensus about the details of LED; it is sufficient that local stakeholders agree that there should be LED at all. An effort to form a consensus and to do a detailed planning of LED tends to get stuck in endless discussions with practical activities being launched.

3 Options for South Africa

In the specific case of South Africa, it is notable that LED often is understood in a very different way from elsewhere in the world:

- It is often confused with territorial planning (in particular as Integrated Development Plans claimed to address, among other things, LED).
- It is often entangled with community development, which tends to lead to a situation where, due to conflicting rationales and goals, neither social nor economic objectives are actually achieved.
- LED is often focusing primarily on black empowerment and the promotion of emerging entrepreneurs.
- LED is supposed not to be “smokestack chasing”. This is adequate to the extent that luring external investors merely by offering subsidies is not a smart LED concept. However, it encourages a mindset which neglects the opportunities created through the attraction of external investors, thus forfeiting the option to attract the type of investor which have created millions of low-skilled jobs in Asia and Latin America.



In other words, LED in South Africa tends to be confused and highly selective. Adding to this the limited capacity and experience local governments tend to have in terms of promoting economic development, it is unlikely that LED will make much of a difference. What might be the principles of an adequate LED concept for South Africa?

- Establish a clear distinction between LED and community development. LED is about creating functioning markets that encourage competitive businesses. Community development is about solving social problems (health, housing, education, neighbourhood), and it involves principles such as solidarity and support for the weak and marginalised.
- Introduce a clear market and business focus in LED. Conceptualise black empowerment and the promotion of emerging entrepreneurs from this perspective. For instance, townships are full of business opportunities, but also full of market failures. Addressing market failure is the appropriate way to stimulate business opportunities, not subsidising potential entrepreneurs or entertaining them with shallow training courses. You don't solve a problem by throwing money at it.
- Realise the opportunities involved in the better utilisation of local resources. Why not use the business skills of experienced businesspersons to strengthen the capabilities of emerging entrepreneurs? Why not look systematically for local sourcing opportunities? Why not mobilise the locally available capital for local business investment?
- Instead of encouraging the creation of oversized, ineffective LED Fora, persuade local stakeholders to look for specific project ideas that are quickly implementable and will make a difference for local businesses. The idea that innovation can be based on consensus is nonsense. With a huge LED Forum aiming at consensus, you get very boring, conventional ideas, and probably no practical results at all. Encourage local stakeholders to establish a governance structure only when there is something to be governed, i.e. when some practical projects are under way.
- Involve both the public and the private sector in LED. Don't leave LED to the private sector alone, since this may create too narrow a perspective. But also don't leave it to government alone, since government is usually not very good at understanding business matters. LED must be based on a partnership between government and the private sector, and it should involve other stakeholders, which are targeting economic issues.