

**LOCAL GOVERNMENT SUPPORT AND LEARNING NETWORK  
(LOGOSUL)**

*Department of Local Government and Housing, Northern Cape*

*Project:*

**LINKING IDP's TO MUNICIPAL BUDGETS IN THE NORTHERN CAPE**

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**Task Team 5:**

**Institutional Capacity for Local Economic  
Development in the Karoo District Municipality**

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**LED institutional arrangements in the Karoo District of the Northern  
Cape: What is needed to grow the business and do the job?**

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## EXECUTIVE SUMMARY

1. The priority option that is proposed by Urban Econ to implement in the Karoo District Municipality is the temporary centralisation of the LED function at district level for an interim period, with the intention of decentralizing it to local level once they have built sufficient capacity to manage this function. Due to the capacity and resource problems of local municipalities it is proposed to transfer the LED function to the District Municipality. This option was taken as the underlying assumption of this study.
2. The work of the LED Unit will be complemented by a Development Forum or Association (“DDA”) representing the private sector. The DDA could be a Section 21 Company or a Development Corporation. The DDA would be strongly a-political, and would be driven by a delivery-oriented CEO. It should have a commercial approach to its activities. In the short- and medium-term, it will need government grants, but in the longer-term, it should become financially self-sustaining by claiming a percentage of profits of businesses established under its umbrella. It could also take out loans from agencies such as the DBSA. Local business and agriculture groups should be represented in the DDA.

3. The DDA should consist of:

- Farmers Associations
- Agricultural Co-operatives
- Chambers of Commerce
- Organisations of emergent farmers
- NGOs involved in job-creation or economic activities.

The DDA should actively work to create and sustain such organizations. It should act as their voice at district level.

The DDA should generate its own funding, both by grants, and by charging a percentage commission on its economic generation activities.

4. Relations between the LED Unit and the DDA should generally be informal. Mutually supportive and on-going. The DDA’s Board, together with the District Council, should appoint the Manager and staff of the District Municipality’s LED Unit. The DDA should provide continuous information and feedback to the LED Unit about economic trends and initiatives, so that the LED Unit can provide appropriate supportive initiatives by the District Municipality.
5. The LED Unit should build up close links with relevant National and Provincial Government Departments, to detect programmes and strategies which may have an impact on LED activities.
6. The LED Unit and DDA should take responsibility for all LED-related initiatives, *including agriculture*. The economic base of the Karoo DM is

agriculture. With an agro-LED focus the economic developmental impact for the agriculture and related sectors could be that much bigger. After some years, the DDA's focus could also shift to include LED in other sectors such as tourism and or manufacturing and the LED Unit could eventually merge with the DDA

7. The functions of the LED Unit should be:

- To co-ordinate the implementation of municipal activities in a manner that optimizes economic development
- To manage the implementation of LED strategies
- To manage and monitor LED projects through baseline and follow-up studies
- To co-ordinate the municipality's economic activities with those of other stakeholders
- To manage the Municipal LED budget
- To maintain the LED database and early warning system.

Costing of the proposed LED Unit:

<b>Item</b>	<b>Cost (p.a)</b>
LED Manager	R150 000
2 Project Officers	R240 000
Secretary/Office administrator	R 70 000
Running costs (travel, admin etc)	R240 000
<b>Total</b>	<b>R700 000 p.a.</b>

**Note:**

- (1) This table excludes initial start-up costs.
- (2) This table excludes the DDA's running costs.

## 1. Introduction and background

The role of local government has changed dramatically since the democratic transition in South Africa in 1994. Historically, local governments were administratively orientated to enforce and practice apartheid policies. Today, however, local governments are expected to play a more active development role in their constituencies, a requirement that places significant stress on both institutional and human resource capacities. Developmental local government is defined by the White Paper on Local Government as “Local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives.” According to the White Paper on Local Government, development in local government has four characteristics:

- maximising social development and **economic growth**
- integrating and co-ordinating
- democratising development
- leading and learning

With these characteristics in mind, the developmental outcomes set by the White Paper on Local Government are:

- provision of household infrastructure and services
- creation of habitable, integrated cities, towns and rural areas
- promotion of **Local Economic Development**
- community empowerment and redistribution

In order to achieve these outcomes, three related approaches are proposed: integrated development planning and budgeting, performance management and working with local citizens and partners (local economic development). Subsequently, local economic development has also, through legislation, been entrenched as a function of local municipalities.

Local economic development can be defined as actions by a local community to create employment and entrepreneurial opportunities, alleviate poverty, and redistribute resources and opportunities to benefit the local residents. Although the ideals of this definition of LED projects are commendable the inherent conflict between poverty alleviation and creating economic opportunities is visible. Furthermore, in an evaluation of LED projects in the Free State the Centre for Development Support found that the financial viability of projects were extremely limited, while no clear guidelines existed on how to identify viable projects (Marais & Botes, 2002). All Municipal managers and Provincial LED managers that were interviewed in the Northern Cape reiterated this lack of viability of current LED projects<sup>1</sup>.

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<sup>1</sup> Some have indicated that not more than 10% of the current LED projects in the Northern Cape will still be operational in three years time. This is a success rate of 2 projects from 23 projects after the spending of R30 million.

## 2. Aims and objectives of the investigation

Local government has a critical role to play in local economic development (LED). However, one could safely conclude that there are currently institutional confusion regarding local economic development in the Northern Cape as much as in the rest of South Africa (Tomlinson,2002: 1). With this in mind, the challenge is to explore and suggest appropriate institutional arrangements to plan and implement LED strategies successfully. Institutional arrangements refer to a range of organisations, structures and networks through which LED can be co-ordinated, managed, implemented and monitored. LED institutions are needed at programme level and project level.

It is evident that the local municipalities within the Karoo district do not have the necessary finances, resources and skills to do the LED job. The **main aim** of this mini-team investigation was therefore to explore different options for the most appropriate institutional arrangements to foster local economic development optimally in the Karoo District Municipality. The research question that drives this input is what options are available for creating the optimum institutional architecture to make LED happen at Local Municipality level. The underlying assumption is therefore that there is substantial opportunity for increasing the efficiency of LED initiatives in the Northern Cape in general, and the Karoo District Municipality in particular.

In gathering the necessary information on LED in the Karoo District and generating some options pertaining to the institutional arrangements the following methodology was applied:

- A personal interview was conducted with the LED Manager in the Northern Cape
- Telephone interviews were conducted with key people in the Department of Local Government and Housing (DPLG) responsible for LED in the Northern Cape and specifically in the Karoo District Municipality and Local Municipalities
- Telephone interviews with the other Logosul Consultancy team, Urban Econ, working specifically on LED
- Telephone and personal interviews with the United Nations Office for Project Services (UNOPS) and staff involved with their Small Enterprise and Human Development Programme (SEHDP)
- Participation in an LED coordinating meeting of the Free State province
- Collating of all relevant documentation on LED in the Northern Cape/Karoo District Municipality

## 3. Current reality and institutional challenges

Currently there are 5 LED projects in the Karoo District municipality funded by DPLG. These projects are reflected in Table 1. In total there are 23 LED projects in the Northern Cape. The LED projects in the Karoo District therefore represent almost a quarter of the total number of LED projects (5 out of 23) in the Northern Cape.

**Table 1: LED projects funded by the DPLG in the Karoo District of the Northern Cape**

<b>Local municipality</b>	<b>LED project</b>	<b>R<sup>2</sup></b>
Siyancuma (Douglas)	Industrial business hive	900 000
Renosterberg (Phillipstown)	Beehive	626 360
Thembelihle (Strydenburg)	Gariiep meat processing	2 200 000
Umsobomvu (Colesberg)	Wool & craft	1 940 000
Thembelihle (Hopetown)	Sunshine farming	2 500 000
	Total:	8 166 360

Four of the projects are in the agricultural and agro-processing sector, while only one is in the manufacturing sector. The Sunshine farming project has just been approved and is at an early implementation stage.

The total value of funding that has been allocated in the Karoo region to these five LED projects is R 8 166 360. The scope and range of the current LED projects in the Karoo district necessitates both programme level institutions (i.e. LED units and LED Forums) and project-level institutions to perform inter alia the following functions:

*At programme level:*

- Co-ordinate LED planning and initiatives
- Promote joint production, marketing and purchasing schemes
- Assist and manage a district level database
- Assist municipalities with limited capacity
- Monitor the performance of municipalities
- Prioritise and co-ordinate LED financing

*At project level:*

- Match the LED objectives and strategies of the project
- Inspire confidence among stakeholders
- Be capable of producing results
- Have sufficient staff capacity to implement the project efficiently and effectively
- Be able to mobilise sufficient financial and human resources for the project
- Be able to transfer skills from any outside agents involved, to the municipality and community members where applicable
- Be able to minimise the potential liability of the LED programme institution, the municipality and other stakeholders if the project experiences problems
- Monitor the progress of the project and satisfy the requirements of government legislation and commercial law

#### **4. Principles for improving LED institutional arrangements**

The following could serve as some over-arching principles/assumptions pertaining to institutionalizing LED better at local government level:

- Since LED is a constitutional imperative it is essential to develop a model for improved LED management in the District and Local Municipalities
- The new challenge in terms of LED initiatives is to acknowledge and promote the idea that institutional development should supersede the narrow conception of a project approach to LED.

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<sup>2</sup> These figures included initial and additional grants for three financial years (2001 to 2003)

- Sufficient resources (finances, human resources, social infrastructure, etc.) should be allocated to the LED function at provincial/ district and local municipal level.
- Currently LED is largely an added, almost ad-hoc responsibility for local municipalities. LED should be better institutionalised and integrated as a core function of local government. However, the involvement of other key departments such as Economic Affairs/DTI and Tourism is also very important.
- Appropriate integration into the main functions of DPLG is essential to increase the developmental impact of LED initiatives.

## **5. Stakeholders, main objectives, functions and services for an LED body at district level**

In ensuring that LED is much more than just a project approach the main aim of an LED function at district level will be to lobby and engage civil society, the private sector, the public sector and the international community. According to Morales-Nieto (2002) the UNOPS Small Enterprise and Human Development Programme identified the following specific objectives of an LED function at district level<sup>3</sup>:

- To create an enabling business environment
- To promote economic and entrepreneurial development
- To facilitate access to credit and finance
- To support capacity building and training
- To contribute to integrate regions into domestic and international markets according to their comparative and competitive advantages

In order to achieve the above objectives the LED institutions at district level will have to achieve the following specific functions and services:

- Information and research
- Market and business development
- Technical assistance
- Capacity building and training
- Credit and finance

## **6. Institutional options**

Since all municipalities in the Karoo region are suffering from a shortage of human resources and finances, a couple of alternative LED arrangements should be considered. Urban Econ (2002) has done an assessment of institutional options in their draft report on LED in the Karoo District Municipality. In this report they suggested four alternative structures (See Urban Econ, 2002: 28-49). These four alternatives are:

- (1) Creating a LED Unit at the District Municipality
- (2) Creating LED capacity at Local Municipality level
- (3) Creating a non-governmental body at district level to promote LED
- (4) A combination of (1) and (2).

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<sup>3</sup> UNOPS is currently involved in a process of establishing LED associations in four districts of four provinces (i.e. Northern Cape, Mpumalanga, Limpopo, and Eastern Cape)

Urban-Econ argues for option (4), i.e. a combination of a LED Unit at DM level, and a Development Forum which includes the private sector. The following features characterize their model:

- The priority option that is proposed by Urban Econ to implement in the Karoo District Municipality is the temporary centralisation of the LED function at district level for an interim period, with the intention of decentralizing it to local level once they have built sufficient capacity to manage this function. Due to the capacity and resource problems of local municipalities it is proposed to transfer the LED function to the District Municipality. According to the Municipal Structures Act, 2000 (Act no. 117 of 2000) a district municipality has a significant role to play in LED since it is responsible for integrated development at a district level. The proposal also includes the gradual transfer of LED to the Local Municipalities over a period of 5-10 years<sup>4</sup>.

This interim arrangement will have, according to Urban Econ (2002) two main benefits: Firstly, the effective utilisation of limited resources within the Karoo region, and secondly, the creation of a central location which will act as a hub where capacity can be developed and nurtured.

The LED Unit represents the public sector. Consequently, Local Municipalities must be represented in the LED Unit.

- The LED Unit would have the following overarching purposes:
  - To co-ordinate the implementation of municipal activities in a manner that optimizes economic development
  - To manage the implementation of LED strategies
  - To manage and monitor LED projects through baseline and follow-up studies
  - To co-ordinate the municipality's economic activities with those of other stakeholders
  - To manage the Municipal LED budget
  - To maintain the LED database and early warning system.
- The work of the LED Unit will be complemented by a Development Forum or Association ("DDA") representing the private sector. The DDA could be a Section 21 Company or a Development Corporation. The DDA would be strongly a-political, and would be driven by a delivery-oriented CEO. It should have a commercial approach to its activities. In the short- and medium-term, it will need government grants, but in the longer-term, it should become financially self-sustaining by claiming a percentage of profits of businesses established under its umbrella. It could also take out loans from agencies such as the DBSA. Local business and agriculture groups should be represented in the DDA.

The DDA should consist of:

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<sup>4</sup> The question could well be asked whether Local Municipalities will then have the capacity to implement LED optimally if they do not have the capacity now. If this is the objective to decentralise LED again after some years than at least serious capacity building should take place at a Local Municipal level, to enable local municipalities to effectively manage LED.

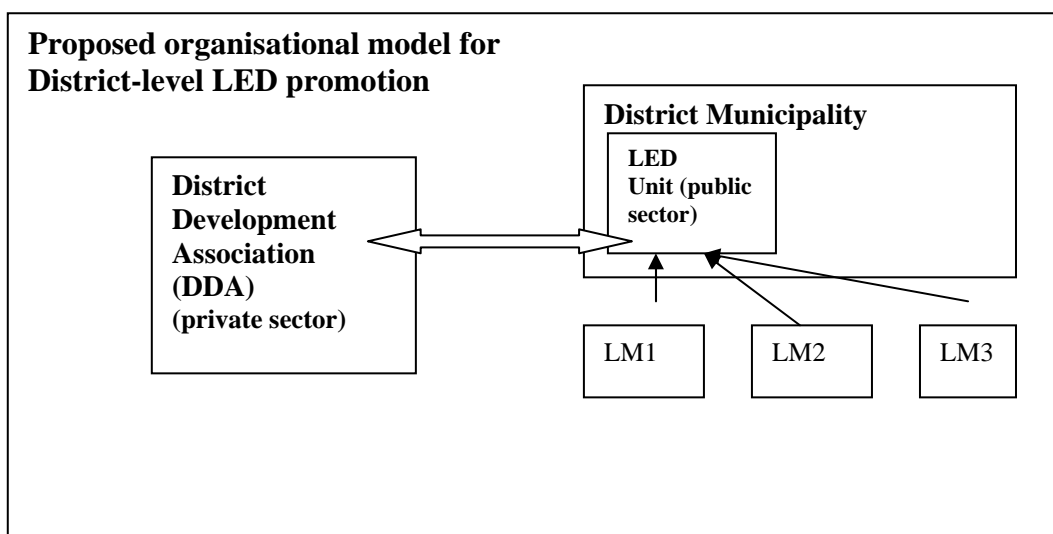
Farmers Associations  
Agricultural Co-operatives  
Chambers of Commerce  
Organisations of emergent farmers  
NGOs involved in job-creation or economic activities.

The DDA should actively work to create and sustain such organizations. It should act as their voice at district level.

The DDA should generate its own funding, both by grants, and by charging a percentage commission on its economic generation activities.

- Relations between the LED Unit and the DDA should generally be informal. Mutually supportive and on-going. The DDA's Board, together with the District Council, should appoint the Manager and staff of the District Municipality's LED Unit. The DDA should provide continuous information and feedback to the LED Unit about economic trends and initiatives, so that the LED Unit can provide appropriate supportive initiatives by the District Municipality.
- The LED Unit should build up close links with relevant National and Provincial Government Departments, to detect programmes and strategies which may have an impact on LED activities.
- The LED Unit and DDA should take responsibility for all LED-related initiatives, *including agriculture*. The economic base of the Karoo DM is agriculture. With an agro-LED focus the economic developmental impact for the agriculture and related sectors could be that much bigger. After some years, the DDA's focus could also shift to include LED in other sectors such as tourism and or manufacturing and the LED Unit could eventually merge with the DDA

**Figure 1: Proposed organisational model for District-level LED promotion**



## **7. Potential obstacles for implementing the District municipality option**

During the interviews all four Municipal managers with current LED projects at their municipalities were in favour of the option to centralise LED at the district level for an interim period. However, they have expressed some concerns that need to be properly addressed in establishing an LED function at a district level.

- *LED career expectations and processes at Local Municipal level:* Some people are already earmarked or appointed as LED managers at Local Municipalities, or at least designated to perform an LED function at the Local Municipality. These LED processes at local municipal level should be carefully integrated and managed with initiatives at a district level, in such a way as to achieve optimal co-ownership and buy-in from local municipalities. One way of handling this from a human resource angle is to change the job descriptions of local municipality LED officials to LED liaison people.
- *Allocating sufficient resources to manage LED optimally:* It is envisaged that such an LED function (i.e. Development Unit and DDA) at District level should have sufficient human and financial capital allocated to achieve make LED initiatives more viable and self-sustainable over the long run.
- *Attracting the best people to manage LED at a district level:* This is a grave concern, since it is argued who will come and work in De Aar to re-activate a batch of struggling projects with limited business sense. Unless government is prepared to pay remuneration packages of R300 000 per annum you may not attract the people with the best skills for the job i.e. to manage LED projects from struggling welfare initiatives to viable community-based businesses (See sections 10.2 and 10.3 for human resource and financial requirements). However, from a public sector point of view this is indeed an area for internal conflict since these remuneration packages may be substantially higher than the people co-ordinating the LED functions at provincial level. However, the human resource challenge remains to entice the right people with appropriate business management skills and project management skills to the position of LED Programme/Project managers at district level.

It may be necessary for the LED Unit at district level to have outlying offices in the satellite towns, staffed by multi-functional outreach officers.

## **8. Institutional and operational requirements for efficient LED management at a district level**

In this section the necessary accountability mechanisms as well as human resource and financial requirements for centralizing LED at district level are discussed.

### *8.1 Proposed accountability mechanisms*

There will have to be up-stream and down-stream accountability mechanisms built into the centralisation of the LED function. *Up-stream* implies: there should still be an LED Provincial Coordinating Committee to which District LED Units and LED Forums could report on a quarterly basis. This could also be very useful to enhance networking and sharing of ideas among the different LED institutions in the province.

*Down-stream* accountability implies that the LED Unit will be part of the normal line function and line structure within the District Municipality. Since the LED Unit will have representatives of all LMs in the district this will ensure sufficient accountability to the LMs.

## *8.2 Human resource requirements for a future LED Unit*

In order to fast track and properly institutionalise LED at district and local level one need champions with experience and certain capabilities. This section will highlight some of these skills and competencies needed at a management level as well as suggested mentoring and support arrangements.

In terms of the skills and competencies required to managing LED programmes and projects per region it is proposed that an experienced person with a business background (SMMEs) should be appointed as LED manager. There is ample evidence that champions with very unique business development related skills and competencies are needed to drive LED effectively.

The officials of the Unit would be appointed by the Council, in co-operation with the DDA Board (i.e. representatives of the private sector). The job description of an appointed LED Unit Manager should include the following:

### External responsibilities:

- To identify and assist in the prioritisation of Agricultural-based LED projects
- To give advice in strengthening the business plans of these LED ventures
- To network with all appropriate stakeholders such as organised Agriculture, organised Business, etc.
- To make recommendations to Local Municipalities regarding LED implications of their activities
- To provide LED mentoring to small businesses in the local municipal areas
- To share LED experiences with other LED structures in the province
- To identify and mobilise appropriate support and mentoring from institutions in the province, as well as national and international institutions to strengthen LED initiatives at LM level
- To perform event and resource lobbying, broader than just the public sector
- To coordinate LED funding from provincial, national and international sources better

### Internal responsibilities

- To take responsibility for the operational management of the LED Unit
- To secure funding for the LED Unit
- To manage two assistant project managers and an office administrator
- To perform technical, financial and entrepreneurship training

Such a person should possess the following skills and experience:

- At least a B-degree with business management and economics as main subjects or alternatively a proven track record of running a business enterprise successfully
- At least 5 years experience of business management, LED and or income generating projects/enterprises
- At least 5 years experience of drafting and implementing business plans (including marketing plans, risk assessments, etc)

- Project management experience
- Business management experience
- Communication skills
- Computer skills specifically spread sheet skills
- Financial management skills

It is also proposed that two assistant LED Project managers should be appointed per district. They should possess the same skills perhaps just at a lower level i.e 3 years experience and any post-secondary qualification will be sufficient. These people should really be operators in the real sense of the word with very good project management skills.

In addition to these skills, mentoring options should be considered. This will mean the following:

- The mobilizing of appropriate service providers to give appropriate and targeted training to the Project managers and assistant project managers at DM level.
- A knowledge sharing mechanism between the LED Unit and other LED bodies in the province to ensure that there is a mutual sharing of LED ideas and experiences in the province.
- Another option is to link the LED Unit to other service providers such as the higher education institutions (i.e. Universities and Technicons), commercial agriculture and agro-processing sector as well as from the business sector to provide a mentoring and supporting role as well as to act as catalysts.

## **9. Costing implications for the proposed institutional re-structuring of the LED function**

*Costing of the LED Unit:* The DM should allocate some operational funds to support its LED Unit. It may need to apply for Provincial Grants in this regard (possibly from Department of Local Government and Housing).

It is difficult to do a cost estimation because it may differ from district to district. However, if we assume that the District Municipality could provide the office space for both the LED Unit and the DDA, the running costs for such an LED Unit and Development Body may be around R70 000 per month, given the actual number of staff. In this regard, the Terms of Reference of the established Local Economic Development Associations (LEDAs) at district level was used as bench mark (See UNOPS in References).<sup>5</sup>

The remuneration packages for the LED staff at the LED Body could amount to R150 000 per annum for the LED Manager, R120 000 per annum for the Assistant Project Manager (it is envisaged to appoint 2 per district) and for a secretary/office administrator R70 000 per annum. The total human resource budget could therefore be R 460 000 per annum, excluding the running costs which may be R240 000 per year (R20 000 per month). The financial implications therefore to centralise the LED function to the District Municipality could cost R700 000 per year. (This cost estimate excludes the initial establishment costs).

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<sup>5</sup> This is slightly higher than the LEDA model and cost structure to make provision for attracting the best people for the job.

*Costing of the DDA:* The DDA should secure funding independently of the District Municipality, to enable an independent voice of the private sector to be heard. The DDA should determine its own staffing and salary levels.

The DDA would also need national and provincial grants in the short-term for its establishment and running costs. In the medium to longer term, the DDA should largely be financially self-reliant. Perhaps the current consultancy fees of 10% could be increased (i.e.15%) and channeled to the DDA for their role in making LED work at project and programme level. This may contribute to greater viability of the institutional arrangements.

## **10. Conclusions**

Given the fact that an amount of R7 539 000 were gazetted in the Division of Revenue Act, 2002/03 for the Province for allocation to new and/or LED projects (Minutes LED Co-ordinating Meeting, 27 September 2002), it is of pivotal importance that the institutional arrangements been clarified and implemented to achieve more efficient LED management at provincial, district and local levels. Currently the confusion around appropriate LED institutional arrangements should be replaced by an innovative drive to institutionalise LED properly at district and local level. This necessitates a dedicated planning and budgeting effort for the human resource and financial requirements to improve the LED drive in the Northern Cape.

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