

Local economic development in the developing countries

Issues, trends and options

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ABSTRACT

This article examines the implementation of local economic development policy in the developing countries and a comparative analysis of two case studies, namely, the Republic of South Africa and Hungary are discussed. Local economic development in the developing countries has the potential to help address the perennial problems manifested through low economic growth rates, high unemployment and poverty levels facing the majority of the population. The academic discourse on the concept of a developmental state is analysed coupled with its application in the South African setting. The research methodology utilised for the purpose of gathering data involved official documentation (namely, government policies and legislation); field research visit to Hungary, at the Hungarian Academy for Regional Studies and literature review. This article presents important strategies that could be employed in order to propel and sustain local economies in the context of developmental local government.

JUSTIFICATION FOR LOCAL ECONOMIC DEVELOPMENT (LED)

Municipalities around the world face, to varying degrees, the similar problems of inequality, unemployment, growing poverty levels and limited provisioning of basic services to local communities (Horn & Lloyd 2001:59). These realities are aggravated by international trends and new realities such as urbanisation, the technological revolution, globalisation and the increasingly competitive environment globally. The impact of these factors on the economies of cities and towns, in general, and South African towns and cities, in particular, are not an exception. A combination of these factors constitutes the new external framework within which municipalities must address their economic status. In South Africa and other less developed countries, economies are characterised by market failures, market imperfections, inefficiency, risk and a lack of an entrepreneurial culture. This places a

major responsibility on the governments in as far as job creation, poverty alleviation and economic growth are concerned. Therefore, innovative and viable policy strategies are necessary for the propulsion of local economies with a view to addressing pressing societal problems manifested through high unemployment, poverty levels and lack of access to basic services. Municipalities are increasingly being required to mediate between the local and global requirements; to balance a local economic development policy aimed at urban competitiveness and poverty alleviation; to engage in more open and transparent state-society relations; and to reform intergovernmental relations (Development Bank of Southern Africa 2000:26).

Municipalities have a key role in coordinating and promoting local economic development (LED). Municipalities can neither simply focus on providing local services and developing infrastructure, nor limit their involvement with the private sector to regulation through imposing planning restrictions and environmental management rules. Thus, municipalities have become critical role players in the investment decisions of private sector organisations. Many of the important variables that determine whether a private company decides to invest in a particular area are the responsibility of municipalities. These include access to development land, the local transport and communications infrastructure, serviced sites, specialised waste disposal facilities, access to trained staff, educational facilities, and housing and recreational amenities to attract and retain skilled staff. In the highly competitive developed economies, LED has become a core activity with a significant impact on the local economy and employment. LED policy should balance the need for attracting investment with the needs of local communities. The private sector requires a competitive advantage through reduced production costs and enhanced social and physical infrastructure. The municipality should promote this while protecting the environment, stimulating employment and implementing poverty alleviation strategies (Development Bank of Southern Africa (DBSA) 2000:29–30).

For the purpose of this article, local economic development serves as a cardinal element for the boosting of local economies, and thereby addresses high levels of poverty, unemployment and inequalities facing the majority of the South African population and, more importantly, ensures global competitiveness and the integration of the South African economy within the global economic context.

ROLE OF THE DEVELOPMENTAL STATE

The academic discourse on the developmental state is replete with literature contributed to by various scholars on the subject: for instance, Johnson (1983) Leftwich (1995) Huff (1999) Mkandawire (2001) Gelb (2006) Jahed and Kimathi (2007) Edigheji (2009) Maserumule (2009) Nzewi and Kuye (2009).

Mkandawire (2001:420) contends that the term developmental state does not only apply to those that have attained economic growth, also includes states that attempt to deploy both administrative and political resources to the tasks of economic development, yet are not able to grow as a result of external factors such as bad luck and miscalculation. He denounces the comparison of states in Africa with developed ones as well as the sense of despondency that this comparison has brought. In the African context, any state that develops an appropriate



institutional structure in order to spark growth merits recognition as a developmental state. African states should determine what works for them, informed by their circumstances rather than emulate the East Asian models unchanged.

According to Turok (2010:499), a developmental state exhibits three important features. *Firstly*, they are capable of planning and making long-term strategic decisions beyond pragmatic responses to political pressures and problems as they emerge. *Secondly*, they have the analytical capacity to separate the causes of problems from their symptoms and their consequences. *Thirdly*, they have organisational capacity to focus on the underlying issues for more tangible outcomes. The primary objective of the developmental state tends to be employment creation. Such states should also be capable of early action in anticipation of difficulties and of minimising the risks of problems occurring or reaching unmanageable proportions. A priority in countries like South Africa is to shift the economic development path in a more inclusive and dynamic direction. It is not sufficient to expand the output of the existing structure and reproduce its deficiencies, or to enrich a narrow section of the previously disadvantaged population through administrative and legal mechanisms.

Thus, the diagnostic report that was published by the National Planning Commission headed by Minister Trevor Manuel in 2011 was a first attempt to generate a broader understanding of the underlying causes and symptoms of the problems facing the South African developmental state. This report allowed the broader civil society, labour, business, government institutions and members of the public to engage and deliberate on the plausible solutions that eventually informed the development of the National Development Plan which is now in the public domain.

Sustained economic success emanates from linking financial rewards to productive activity and long term performance. The other feature of a developmental state is the promotion of change informed by boldness and concerted effort on the part of government. The government endeavours to act on a sufficient scale and with collective weight to influence established growth trajectories. It views the economic impact of all its interventions and understands how state procurement, regulation and services can boost or negatively impact on the creation of jobs. Different parts of the state are aligned in order to ensure that the powers of the state as an investor, purchaser, employer, regulator and provider of infrastructure and services yield consistent results. For example, in the urban setting it is important to connect policies for housing, transport, land use and basic services in order to contain low-density sprawl and to create more inclusive and efficient cities (Turok & Parnell, 2009, in Turok 2010:500). In the employment domain, linking schools, colleges, job advisory services and employers together can ensure the integration and mobility of people into work and make the labour market function more effectively (Turok 2010:500).

Failure to integrate and coordinate state plans and actions means that the development agenda may be undermined by contradictory state actions and speculative tendencies in the private sector wanting for easy returns. Integrated actions enable the state to initiate change, and not simply to accommodate trends and respond to events as they unfold. Developmental states invest in the release of locked economic potential, encourage enterprise development and make better use of neglected resources such as labour and land. They intervene to improve and develop the market by creating financial institutions to provide risk capital, encouraging long-term business decisions and improved management, and stimulating productive activity in places that may have been spontaneously identified (Sen 2009).

The logic goes beyond compensating for market inefficiencies and promoting welfare schemes in isolation from economic opportunity. It is about building the human capabilities and culture to support a resilient and dynamic economy (Sen 2009; Evans 2009; Turok 2010:500). Flowing from this background, it is pertinent to state that the interventionist focus of the developmental state is not only confined to the economic domain, but also extends to other important terrains such as public infrastructure investment, and public service delivery in order to ensure that there is integrated and consistent implementation of state plans aimed at delivering high economic growth, investment rates and employment creation.

An important feature of developmental states is that they are democratic in the sense that different actors and interests are brought together to define a common purpose and sense of direction (Robertson & White 1998; Edigheji 2010). Democratic processes shape knowledge of which public goods are most needed by citizens and private organisations. Partnerships with business, labour and community organisations help to share ideas and resources, and build support and mutual commitment to activities that enhance value, encourage hard work and self-improvement and increase employment. This partnership is central to the construction of a developmental state. Collaboration among different spheres of government is also important, to avoid wasteful competition and duplication of effort. For example, the sequence and location of state investments in transport, energy, digital, low carbon and community infrastructure need proper alignment to ensure compatibility and maximise local jobs. Special initiatives and ad-hoc projects are likely to be less effective than sustained effort to reconfigure and integrate broad national development policies (Turok 2010:500). The developmental state is expressed as a development conscious state in which economic development is enhanced through political commitment and a competent bureaucracy driven by state political and economic structures. Some of the functions of the developmental state are in the form of micro and macro policies that create an enabling environment for businesses (Nzewi & Kuye 2007:200).

Edigheji (2009:60) asserts that there is no one formula for constructing a developmental state. The South African developmental state is based on the adaptation of some elements of the Asian developmental states especially with respect to the central development planning that produced the National Development Plan in 2012. It should be borne in mind that in every historical epoch developmental states have been constructed to respond to specific contextual developmental challenges. In doing so, they have drawn important lessons from other experiences, adapting these to address their particular context. Most developmental states, especially in Asia, are highly interventionist and protectionist, have strong state capacity and political leaders who are highly nationalistic and patriotic and, as a result, have the political will to drive through the development agenda. They are highly innovative; put measures in place to address the adverse conditions affecting the poor and make a huge investment to enhance human capabilities; create conditions for high economic growth rates; have a sufficient degree of national autonomy in policy making and give specific primacy to public policy in areas of health, education, social welfare and land reform. These are the factors that have largely contributed to the successes of the Asian developmental states (Edigheji 2009:61–62).

According to Mayende (2009:53), a developmental state, through using its planning systems and bureaucratic capacity, crafts policies and programmes that are aimed at

ensuring high levels of economic growth, equitable distribution of wealth, reduction in levels of poverty and inequality, and development, in general, for the benefit of all citizens. A disciplined and patriotic bureaucracy, characterised by high levels of technical, managerial and programme implementation capacity, and *esprit de corps*, is a fundamental requirement for an effective developmental state. Butler (2009:63) asserts that developmental states do not merely allocate resources, they also mobilise them to finance investment and growth. In order to gather all resources, the public sector can contribute to national investment, while government non-investment spending must remain tightly curtailed and a restrictive budgetary policy must therefore remain. A successful developmental state does not merely develop good policies that help an economy to grow. It also has the capacity to implement and administer them, to maintain an effective machinery of government and to protect and develop a culture of honesty and high performance in the public sector. Many of the fast-growing developmental states of East Asia such as Japan and South Korea are known for the effectiveness of governmental administrative systems, the high quality and calibre of senior managers trained and motivated (Butler 2009:136).

There are important tasks to be carried out by a developmental state. Amongst others these are, to formulate a cohesive and focused set of goals and objectives for national growth and development and a set of policies to achieve these goals (Gelb 2006). Jahed and Kimathi (2007:47) assert that a developmental state is one that has a development orientation and consequently adopts development functions. The state's economic policies are formulated and adopted on the basis of their ability to promote development rather than to regulate the economic actors. The developmental state is characterised by being aimed at promoting and succeeding in achieving economic growth by establishing viable institutions that yield maximum growth. The developmental state model favours a strong role for a strong state in steering such development by providing the conditions for development, that is, health, education and infrastructure and taking adequate measures to protect national industry in the globalising economy, not in order to maximise profits but in order to promote the development of its people and to achieve sustainable national economic growth (Tshishonga & De Vries 2011:60).

For the purpose of this article, it can be argued that for the South African developmental state to deliver on its electoral and constitutional obligations related to the promotion of social and economic development and poverty alleviation there ought to be strategies put in place to propel growth measured in terms of Gross Domestic Product (GDP), per capita income and domestic and foreign investments. The state should intervene in the economy to counter the neo-liberal ideology that promotes the minimalist role of the state in the economy in favour of the market. The success of the developmental state hinges on the bureaucratic and managerial capacity of the senior managers in the public sector including municipalities to shape and drive the development agenda aimed at delivering on the expectations and needs of the poor, marginalised and unemployed sectors of the population. This requires the ability on the part of senior managers to formulate long-term economic development plans and strategies and effectively implement them. The involvement of the broader civil society, business and labour organisations, non-governmental organisations and members of the public is cardinal to the development of these long-term economic development plans and strategies.

SOUTH AFRICA'S ECONOMIC SITUATION

South Africa is a middle income country and, more importantly, is endowed with mineral resources such as gold, platinum and coal. South Africa exhibits a diversified economy manifested by the contribution of various industries to the Gross Domestic Product notably mining, financial services, government and community services, trade, agriculture, manufacturing, construction, transport and telecommunication sectors. A critical examination of South Africa's economy clearly reveals that growth measured in terms of Gross Domestic Product (GDP) has been stagnant particularly from the mid-1970s and in the latter part of 1980s. The new democratic government that assumed political power in 1994 inherited a weakened national economy as a result of an array of factors including the global economic crisis, global competition especially in the manufacturing sector, disinvestment and job loss largely affecting unskilled labour owing to the use of capital intensive technologies.

Since 1994, the country has enjoyed positive but quite low levels of economic growth and this is depicted in Table 1. Average real growth of around 3,1 per cent per annum has translated after population growth into around 1,1 per cent growth per capita GDP per year.

Table 1 Economic growth 1994–2012

Year	% Growth
1994	3,2
1995	3,1
1996	4,3
1997	2,6
1998	0,5
1999	2,4
2000	4,2
2002	3,7
2003	3,1
2004	4,9
2005	5,0
2006	5,4
2007	5,1
2008	-1,7
2009	3,5
2010	4,5
2011	3,2
2012	2,3

Statistics South Africa (2008;2012)



South Africa's post-apartheid growth has been mostly jobless growth; the number of people employed in formal non-agricultural employment fell substantially between 1994 and 2000 (Butler 2009:56).

The South African economy has become increasingly diversified over the years. In the late nineteenth century, mining and agriculture dominated the economy. However, South Africa became progressively a manufacturing economy, with manufacturing surpassing other sectors by the mid-twentieth century. Services have achieved huge significance during the past four decades. The country entered the twenty-first century being a reasonably diversified and robust economy, dominated by the tertiary (services) sector (66 per cent of output) with the secondary sector (including manufacturing) accounting for 20 per cent and the primary sector for only 10 per cent (Du Plessis & Smit 2007).

Manufacturing, finance and government are the three biggest industrial categories. The fastest growth in recent years has been in transport, communication, financial institutions, insurance business services and real estate. Despite this diversification, some scholars argue that resources remain at the heart of the economy. While mining itself accounts directly for a little over 5 per cent of the GDP, there are strong relationships between mining and sectors such as electricity, non-metallic mineral products, iron and steel industries, fertilisers, pesticides, chemicals, and the petroleum industries. The mineral-energy complex still accounts for a fifth or even a quarter of the output of the economy (Fine & Rustomjee 1996).

THE HUNGARIAN CASE

Hungary is a middle income country that is located in Central Europe and is a member of the European Union. According to Chapter IX of the Hungarian *Constitution* (enacted in 1949 and wholly amended in 1989) on Local Governments, the territory is constituted by administrative units, including the capital, Budapest, counties, towns and villages. The Hungarian territory can be divided into seven regions, nineteen counties, about 3 100 municipalities and 174 micro-regions and associations. The first level of public administration for the planning system is performed by the central government primarily by the ministry responsible for local government. According to the *Constitution*, the representative bodies of local governments regulate and administer matters that belong to the competence of a local authority; exercise ownership rights in regard to local authority property; independently budgets the incomes of the local government and may start ventures on their own responsibility; authorise, within the limits of the law, local taxes, their type and measures; and may freely form associations with other local representative bodies. Local authorities are responsible for local development and local planning, protecting the environment, whether it is built or natural. The other important responsibilities assigned to local government include housing management, water resources planning and drainage, the sewerage system, maintenance of public roads and areas, provision of education and other social services (Cardoso 2009:24–25).

Hungary is currently faced with serious socio-economic development problems stemming from high unemployment, a declining standard of living due to adoption of the market economy system, that is, the transition from communism to a market economy, limited financial resources due to significant reliance of the European Union's Structural Funds, an

ageing population and agricultural crisis and varying LED staff capacities in villages, small and big towns. Some of these problems are prevalent in the South African context.

The significant lessons from the Hungarian local economic development policy and practices are that there is a sound policy framework guiding LED planning; partnerships and cooperation in LED planning initiatives are strong. There are successful industrial parks, industrial districts and enterprise zones that are established by municipalities and geared towards job creation, through an expansion of the pool of local entrepreneurs. Effective infrastructure in the form of transportation, telecommunications and roads exist. Effective inter-governmental relations on the promotion of regional and local economic development across the national, regional, county, microregion and municipal levels are in operation.

OVERVIEW OF LED POLICY DEVELOPMENT IN SOUTH AFRICA

The South African LED approaches towards planning LED have traditionally been strongly influenced by the experiences of Britain and the United States of America (USA). South Africa followed the World Bank LED model, where a substantial body of literature on the subject has appeared, and by Austria, where the response to declining small towns have close parallels in South Africa (Harrison & Naidoo 1999). The historical evolution of LED policy in South Africa has been marked by the formulation of several significant policy documents in the early 1990s (Nel 2000). In 1994 the private sector think tank, the Urban Foundation, now the Centre for Development Enterprise, prepared a policy document which strongly reflected and advocated the adoption of Western European and North American LED experience. By contrast, in 1995 the South African National Civics Organisation published their own strategy document which advocated community-based dimensions of LED (Nel 1995). During 1996 the National Business Initiative, in collaboration with the RDP-Ministry, published an LED manual which straddles both community-oriented strategies and neo-liberal principles of independent policy action (Nel 2000).

Since 1995 policy leadership in developing a national framework for LED has been assumed by the Department of Cooperative Governance and Traditional Affairs (formerly the Department of Provincial and Local Government) which has produced a series of policy statements. The legislative and policy context for LED has been shaped by several key pieces of legislation. Firstly, the 1996 *Constitution* recognises the significance of local government in the statement that: A municipality must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community. Secondly, the 1998, *White Paper on Local Government* conceptualises the notion of developmental local government which is defined as local government committed to working with citizens and groups within the community to find sustainable ways and means to meet their social, economic and material needs, and improve the quality of their lives. Thirdly, the *Local Government: Municipal Systems Act* 32 of 2000 made the pursuit of Integrated Development Planning (IDP) a compulsory activity for municipalities and legislated a number of key LED functions and responsibilities (Van der Heijden 2008).

Rabie (2011:240) argues that following the 2009 national elections and the resultant change in ministries and government structure, the functions of the former Department



of Provincial and Local Government were conferred on the Department: Cooperative Governance (Cog). The new department issued the Cog Turnaround Strategy (2009) to overcome service delivery problems in the local government sphere. With regard to LED, it gives municipalities the responsibility of developing an LED support programme that works with Ward Committees in facilitating ward-based economic planning and delivering at least one economic product per ward (Cog 2009:38). Rabie (2011:241) notes that the various LED policies differ dramatically in terms of what LED entails and what the focus of LED efforts should be at ranges from a facilitative governance approach, where everything the municipality do, has an economic impact, to a specialised LED approach where municipalities should develop specific strategies and interventions that provide specialised support to the private sector and local communities. This is done to ensure that the competitive advantage of the area is fully exploited in an inclusive, sustainable and robust manner. The LED approach of the policies transcends from community-driven development as prevalent in developing countries to business or market-driven development present in developed countries.

A problematic area evident in the various LED policies relate to delineation of roles and responsibilities among the different spheres of government and agencies. Rabie (2011:242) states that, at times, local government is seen as the main driver, with national and provincial government providing support and aligning to Integrated Development Plans. Sometimes, municipalities are not in the forefront, but are seen as an implementing extension of national government priorities in the local sphere. This confusion within the policy framework places municipalities in a predicament as they are expected to turn around current service delivery and governance problems and simultaneously embark on complex and sophisticated economic planning that will enhance their locality in the context of provincial and national spatial and economic development strategies. This is presented in the absence of dedicated financial resources for LED at the discretion of the municipality (Rabie 2011:242). The conclusion from this analysis is that the contradictions between and within documents will probably result in municipalities adopting LED strategies that may render little result, but provide reading material for the Auditor-General and possibly avoid audit qualifications (Rabie 2011:242).

International best practice research indicates that municipalities, in collaboration with the local community, is in a favourable position to recognise local economic development potential and devise appropriate strategies to realise this potential. However, in communities and local municipalities where capacity and knowledge constraints exist, this assumption that *local knows best* becomes questionable. The scope of leadership in municipalities is also restricted by the legislative framework within which this role is undertaken. South Africa's Constitution stipulates the independent authority of each sphere of government, but cooperative government at the same time requires similarity to a centrally-driven, unitary state (Rabie 2011:258).

Although the national government has put in place various policies and guidelines underpinning the implementation of LED in South Africa, the implementation process continues to be fraught with difficulties and challenges. The *Report on the Strategic Review of Local Government in South Africa* presented to the Minister of Cooperative Governance and Traditional Affairs in 2009 offers numerous challenges related to LED policy implementation pertaining *inter alia* to:

- The need for national government to provide clarity as to the meaning of LED, especially to guide small town and poorer municipalities;
- The need for greater integration and cooperation between both LED stakeholders and sector departments involved in implementing LED;
- The appropriate scaling of LED;
- Revitalising the role of provinces in LED;
- Closing the gap in LED practice between that in large cities and in small towns and poorer municipalities;
- The need to disseminate good practice in LED;
- The significance of improving the profile of LED and for greater professionalisation of LED;
- The importance of building LED networks and of sustainable knowledge platforms as a means to enhance high level systemic learning;
- The capacity challenge of training professional staff and careers in LED;
- The LED funding challenge; and
- Improving economic data for understanding local economies and for LED planning; (Report on the Strategic Review of Local Government in South Africa 2009)

Currently, most of the small local municipalities are unable to operationalise LED in their Integrated Development Plans as LED is considered in isolation from the integrated development planning process that mainly focusses on service delivery and infrastructure issues. As a result, most Integrated Development Plans contain limited analysis of the economic potential and competitiveness of local economies and strategies that could be employed to tap into the economic potentialities of the municipalities. This situation is also exacerbated by the existing policy confusion in terms of the content of the national LED Policy Frameworks and Guidelines which tend to vacillate between the concepts of welfare focus versus economic focus. The absence of policy leadership by the national government with respect to articulation of the main focus of LED tends to generate misunderstandings and misconceptions of local economic development on the part of the implementers.

The need for greater synchronisation on policy development and implementation pertaining local economic development also appears to be missing. For example, on the one hand, the Department of Trade and Industry is amongst others responsible for Regional Industrial Development (that impacts on LED), and also provides policy support, capacity building in the area of LED planning, partnership building and facilitation of implementation of LED. On the other hand, the Department of Cooperative Governance also has a separate unit dedicated to LED programmes. Most municipalities tend to interact with the latter Department on issues related to LED policy implementation due to its strategic mandate focusing primarily on municipal programmes. The delineation of roles and responsibilities coupled with inter-organisational relations for national, provincial and municipalities can enhance the efficacy of LED policy implementation.

The limited capacities of LED staff in most municipalities impacts on the implementation of local economic development objectives. This results in the use of private consultants. LED policy implementation hinges on municipal staff that is in possession of relevant skills and competences including but not limited to economic analysis, project planning and

management and monitoring and evaluation. This view is also expressed clearly in the *Report on the Strategic review of local economic development in South Africa, 2009*.

STRATEGIES FOR BUILDING LOCAL ECONOMIES

There are a number of important strategies that could be employed to propel and sustain local economies in the context of developmental local government. Some of these strategies require effective inter-organisational and inter-governmental relations to be realised and while others rely on allocation of adequate resources, creativity and proper planning.

Integrated development and service delivery

Infrastructure development, service delivery, municipal financial viability and local economic development are not mutually exclusive concepts. They are interdependent and government, especially municipalities, should develop strategies and management practices that take a holistic and integrated approach. Coordinated structural planning within the context of the Integrated Development Planning process offers the potential to link local economies and accelerate growth directly by public-private sector investment and through facilitating the strategic development of competitive advantage. To facilitate and achieve this, more rigorous long term planning through cooperative government (*Inter-governmental Relations Framework Act, 2005*) and in accordance with national spatial planning guidelines are required. Long term planning and research should be the basis for understanding local economies better, aligning economic strategies throughout government, and building the competitiveness of the municipal regions (DPLG National Framework for Local Economic Development 2006).

Thus far, endeavours have been made to align government's development planning by introducing development planning instruments in each sphere of government, that is, the national spatial development framework (NSDP); the provincial growth and development strategy (PGDS); and the integrated development plan (IDP) for national, provincial and local governments, respectively. Theoretically, these planning instruments are meant to flow into one another with the one informing the other. For instance, the PGDS should in part reflect the harmonisation of growth trajectories of all municipalities in a given province, as per their IDPs. The current generation of provincial PGDS and IDPs in the respective provinces throughout the country appear to be moving in tandem with each other (Nkwini 2010:228).

Public investment and enterprise development

Turok (2008:196) argues that public investment in productive capacity and services which provide an economic return such as housing and electricity, as opposed to welfare spending, will mean that there will be returns on investment. This will safeguard macroeconomic balances and ensure that development is sustainable. This investment will also generate further growth through demand for electrical goods, furniture, household goods, paint and other consumables, which can be produced locally.

Municipalities need to prepare industrial and commercial sites with basic infrastructure in order to attract businesses to the area (Bertlesmann Foundation and World Bank's Cities Initiative 2002:35). A well developed built environment is more attractive for businesses wanting to locate, expand or settle its employees and owners in the locality. Small medium sized enterprises are dependent on good supportive infrastructure for growth (Rogerson 2004:24-25). Programmes and projects may include improving key roads, railways, airports, ports, sites and buildings, water, sewerage, energy and telecommunications systems and crime prevention equipment (Rabie 2011:305). The World Bank Primer advises that since these projects involve considerable expense, it is imperative that municipalities prioritise infrastructure investments according to need, potential for cost-recovery, opportunities for leveraging additional resources (Bertlesmann Foundation and World Bank's Cities of Change Initiative 2002).

Local economic development agencies

The concept of a development agency is an approach for generating jobs in local communities using local knowledge and mechanisms. It involves strategic planning and research, using available tools and resources, and building partnerships among different spheres of government, the private sector and the non-profit sector. The primary objectives of these agencies are: to promote and develop economic potential on a local and regional basis by building on the unique competitive strengths of each region's economy and assets; to leverage public and private resources for development opportunities; to foster the innovative thinking and entrepreneurial activity which support and drive economic growth; and to manage the spatial organisation of the area in a socially efficient manner and through the use of public land and targeted private projects in particular (Patterson 2008:28). Development agencies have been created as alternative institutions to promote public-private partnerships that will advance the ideals of economic development in the area (Xuza 2007:120).

Local economic development agencies, as municipal entities, are established either in a district or a local municipality. In South Africa, these agencies are a new invention to counteract the excessive dependence of municipalities on national and provincial economic initiatives that are invariably inconsistent with the needs and aspirations of local communities and often appear locally irrelevant. Local economic development agencies are set to respond to socio-economic challenges, growing concern over economic growth and development, poverty and the poor performance of municipal sector departments in economic development. Their economic development mandate is founded on the premise that traditional municipal structures cannot optimally respond to the socioeconomic challenges in local communities (Malefane & Khalo 2010:138).

CONCLUSION

This article commenced with a reflection on the justification of local economic development in the context of the developing countries. It is pertinent to state that local economic development remains the *sine qua non* for economic development, poverty alleviation and employment creation in the developing countries. The significant lessons from the



Hungarian local economic development policy and practices are that there is a sound policy framework guiding LED planning and partnerships are forged together with various local stakeholders and effective inter-governmental relations on the promotion of regional and local economic development are in operation. It is apparent that the effectiveness of LED strategies hinge on integrated development planning and service delivery, the availability of physical infrastructure such as transportation, electricity, roads, water and sanitation, enterprise development.

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