

**Local Economic Development
in the Eastern Cape:**

A People-Driven Option

Discussion Document

**Eastern Cape
Socio-Economic Consultative Council**

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EXECUTIVE SUMMARY

1. This *Discussion Document* sets out the rationale for Eastern Cape municipalities to tackle their Local Economic Development challenges in the spirit of a *people-driven* option. That option begins by acknowledging alternative perspectives on LED, and discusses varying assumptions about the phenomena of globalisation and glocalisation, South Africa's macroeconomic strategy (including its local development and infrastructural implications), Constitutional and legislative requirements for municipalities, and the situation presently facing the Eastern Cape economy. Once those assumptions are on the table, it becomes possible to map out a strategy for LED based largely upon meeting basic needs.

2. The LED field includes a wide variety of perspectives, ranging from traditional to free-market to progressive. These perspectives offer contradicting aims and objectives, as well as concomitant municipal actions. This paper adopts the progressive, people-driven and community-based strategy whose aims centre around infrastructure development to meet basic needs, in a manner that promotes community organisation and builds institutions.

3. The differing perspectives about LED strategies are also important when considering the impact of globalisation. This *Discussion Document* presents evidence that powerful international actors view the phenomenon partly in terms of new power relations (especially a weaker, and cheaper labour component), as well as new ways of organising the state, with both tendencies to centralisation and decentralisation evident. Municipalities have, as a result, more responsibility -- but also fewer resources. However, free-market LED approaches may lead to self-destructive competition between municipalities. This is particularly important when considering the lack of competitiveness evident in manufacturing in South Africa as a whole, and especially in the Eastern Cape.

4. The problems with following an orthodox, free-market approach to attracting investment are exacerbated by the difficulties South Africa's economy is having in meeting the targets set out in the *Growth, Employment and Redistribution* strategy. The strategy does, nevertheless, offer LED advocates some surprising endorsements, particularly with respect to municipal infrastructure and job creation through the construction sector.

5. Likewise there are strong endorsements for municipalities to meet their citizens' basic needs in the Constitution. The Constitution specifies both municipal functions as well as the overall human right to having basic needs met. These are echoed in legislation for municipalities, which includes specifications about Land Development Objectives and Integrated Development Plans. Both are helpful strategic tools for LED, and are required from municipalities.

6. All of these mandates for LED are greatly welcomed in the Eastern Cape. Provincial government has generally failed, for many decades, to meet the basic needs of the majority of its citizens. Moreover, the dire crises in service provision, job creation and rural development are amplified by the fact that the provincial economy is also in decline. Massive job losses in both agriculture and non-agricultural sectors have occurred since the early 1980s. Uneven development between rural regions and urban areas also characterises the province.

7. There emerge from these backlogs, nevertheless, some strong possibilities for adopting bottom-up provincial policies that both meet basic needs and contribute to economic development. Basic needs are discussed, and the particular backlogs associated with infrastructure are considered. The many eco-social benefits of infrastructure investment are calculated in a rudimentary form; these include public health, environment, women's time and desegregation.

8. To achieve these eco-social benefits, however, requires strong subsidy lines and a rejection of the cost-recovery approach pushed by free-market advocates. There are many good reasons for doing this, and for establishing an alternative approach based on citizen entitlements for minimum access to infrastructure-related services.

9. By doing this, direct and indirect economic development multipliers can be invoked: the level of employment is raised dramatically; wages and working conditions improve; work productivity is enhanced; and small enterprises are stimulated.

10. But to achieve lasting success along these lines, it will be essential to improve community participation, in part through additional state investment in "social capital" (the organisational fabric of communities). There are a variety of ways to do this, depending upon local circumstances, the size of the community and the resources available.

11. Municipal incentives to attract investment are also discussed, as well as investment programmes offered nationally. Some of these have progressive components, but there remains the risk that by adopting traditional methods, municipalities will not be terribly successful over the short- or medium-term, given the broader context described earlier. There are additional progressive approaches to LED, that rely upon linking high-growth areas to low-growth areas, but these can only be applied quite selectively.

12. Of greatest merit, the *Discussion Document* argues in conclusion, is tailoring an LED strategy to meeting basic infrastructural needs. This often occurs as part of a housing programme, but the declining value of the subsidy may well pay only for basic infrastructure. Of greatest importance once the capital is invested, is ensuring that beneficiaries of increased capital expenditure on infrastructure actually have sufficient resources to consume the water, electricity and other services offered. This will allow the full multipliers of such investments to be realised, and will not only generate LED, but will do so in a manner that is ecologically, gender and geographically progressive.

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Local Economic Development in the Eastern Cape: A People-Driven Option

Chapter 1. Introduction

1.1 *Local Economic Development.* The three words mean many things to many people, as a key ANC policy specialist remarked to *Local Economic Development News*: "Ask ten people what they understand LED to be and you will receive five frowning silences, four different answers and one denial that there is any such thing."¹ There are, indeed, at least a half-dozen possible answers, judging by international experience, ranging from traditional approaches that rely on strong municipalities and a national environment sympathetic to local development, to free-market "efficiency" or "entrepreneurial" or even "progressive-competitive" strategies, to community-based and even "municipal socialist" strategies. As Table 1 demonstrates, each is based on divergent aims, assumptions and actions.

1.2 Why, in the context of great diversity of approach, should this discussion document focus on the community-based -- or in South African terminology, "people-driven" -- option?² This paper answers that question in part by exploring the limitations and the opportunities presented in the contemporary situation. The balance of forces, nationally and globally, mitigate against the most radical attempts to redistribute. Likewise, however, the traditional municipal state is waning and will be difficult to resurrect across the Eastern Cape in the form that it thrived in under conditions of apartheid exploitation, segregation, forced-removal and patriarchy. The pre-1994 practice by which rural Transkeian or Ciskeian women and children bore the burden of their men's migration to urban jobs -- returning mainly when sick or old -- must, by all accounts, be transcended if the Eastern Cape is to restore humanity to our families.

1.3 But the new, free-market approaches are not a satisfactory answer given the Eastern Cape's inherited inefficiencies and lack of international competitiveness. This argument is made in greater depth below, but the danger remains that business may wring excessive concessions out of municipalities that are desperate for investment and job creation.

1.4 Instead, this paper shows how a people-driven approach can be considered a primary option based on meeting basic needs through community-based development strategies. This approach, as shown below, combines additional benefits ("multipliers" or "positive externalities") with the self-activity of grassroots development workers, supported with government resources. This was the point of the LED directive in the African National Congress *Reconstruction and Development Programme*:

4.3.5 In order to foster the growth of local economies, broadly representative institutions must be established to address local economic development needs. Their purpose would be to formulate strategies to address job creation and community development (for example, leveraging private sector funds for community development, investment strategies, training, small business and agricultural development, etc.). If necessary, the democratic government must provide some subsidies as a catalyst for job-creation programmes controlled by communities and/or workers, and target appropriate job creation and development programmes in the most neglected and impoverished areas of our country. Ultimately, all such projects should sustain themselves.

Table 1.1 **Diverse Approaches to LE^D**

1.5 The rest of this *Discussion Document* provides arguments that support the fifth option, the "people-driven" approach to LED. Such an approach acknowledges forthrightly the limitations of municipal capacity, particularly in a province in which many dozens of municipalities are threatened with financial non-viability and even amalgamation or closure. In doing so, however, it does not shrink from the argument that the new, democratic state has a critical responsibility to meet its citizens' basic needs. But the people-driven approach always strives to empower ordinary residents, in large part by ensuring that those aspects of the Constitution regarded as "socio-economic rights" are progressively achieved at local level, through local effort.

1.6 There is a wide consensus about this typology of approaches to LED. To demonstrate why municipal policy-makers and community activists around the world are facing similar conditions, the next chapter takes a global and national perspective, highlighting the new global economic problems; the national economic strategy and the space it provides for progressive LED; the national mandates provided in the Constitution for LED; and the national legislative responsibilities related to integrated planning and land development. The third chapter is a situation analysis of the Eastern Cape. It provides recent information about social backlogs and economic trends, and considers the possibilities for bottom-up provincial LED policies.

1.7 The fourth chapter provides an indication of how, specifically, a people-driven option might work. The chapter starts with the premise that Basic Needs must be met; then demonstrates that basic infrastructural investment has large public health benefits and ecological, gender and geographical implications; discusses the issues associated with making basic services affordable by reforming the pricing of infrastructural services; considers the infrastructure-related economic multipliers that occur at local level (employment, productivity and small enterprises); and describes the various municipal incentives available for LED.

1.8 The debate over which LED strategy is preferable is in its infancy in South Africa. This *Discussion Document* is an early attempt to demonstrate that there are feasible people-driven options that are consistent with national policy and legislation, but that go far beyond the orthodox approach so that -- with adequate state financial support -- communities can begin to take their future into their own hands.

Chapter 2. Global/National Situation Analysis

2.1 Globalisation and its implications

2.1.1 The phenomenon known as globalisation -- the expansion of world trade, investment and financing activity -- boils down to dramatic political-economic power shifts, largely between capital and labour. According to a World Bank report, "The overall model chosen to integrate the economy into the international markets... should aim at avoiding the appropriation of rents by suppliers of nontradables and workers. That is, they should maintain the real wage low, so that excess profits accrue to capital... In carrying out all these activities, a close alliance between Government and private agents must be developed."

2.1.2 There are other shifts in power to consider, particularly within and between levels of government. Globalisation has heightened the tendency for municipalities to gain greater responsibility -- even if, often, with far fewer resources -- for their own development. In earlier eras, a nation-state's economic ministries would have had more scope to carry out decentralisation of development, to redirect investment into different sectors, and to introduce industrial policies with strong implications for municipalities. That era has largely passed (although South Africa's Spatial Development Initiatives will affect Eastern Cape cities and towns in ways that are difficult to predict). Much of the economic activity South Africa will experience over the next decade or more will relate closely to the costs and benefits of local conditions, as opposed to efforts made at national level to level out uneven development. This is the flip side of globalisation, and is known as "glocalisation," a "double-movement" of economic power and autonomy, felt both in terms of centralisation to large transnational corporations on the one hand, and decentralisation to municipalities on the other hand.

2.1.3 But although municipal self-determination is to be welcomed, the catch is that the municipal scale is becoming a new unit of analysis, control and implementation largely for the purpose of more efficiently imposing free-market structural adjustment policies (especially in the wake of the destruction of many nation-state capacities). To illustrate, one senior advisor to the United Nations Conference on Human Settlements, argued that the 1996 Habitat conference in Istanbul should be about "creating a level playing field for competition among cities, particularly across national borders; on understanding how cities get ahead in this competition; on global capital transfers, the new economic order and the weakening of the nation-state... The city is not a community, but a conglomerate of firms, institutions, organisations and individuals with contractual agreements among them."

2.1.4 From such foundations, free-market theories of LED have been constructed. The World Bank's efforts to do so have spanned two decades but have taken on far greater energy since the 1986 launch of the New Urban Management Programme, which was further articulated in an important 1991 policy paper. The New Urban Management Programme also highlights the *productivity* of urban capital as it flows through urban land markets (now enhanced by titles and registration), through housing finance systems (featuring solely private sector delivery and an end to state subsidies), through the much-celebrated (but extremely exploitative) informal economy, through (often newly-privatised) urban services such as transport, sewage, water and even primary health care services (via intensified cost-recovery), and the like.

2.1.5 Likewise, in common with austerity policies at the macro-economic scale, US AID consultants spelled out the "...important change in policy thinking in the

developing world closely linked to the acceptance of market-oriented economies: the growing acceptance of rapid urbanization... An emphasis on national economic growth and export-led development will usually mean that new investment resources must be directed to already successful regions and cities... Governments have considerable control over the entire cost structure of urban areas. Public policy should be directed to lowering these costs." Lowering these costs -- especially by lowering the social wage -- is integral to a more direct insertion of "competitive" cities into the world economy.

2.1.6 In all these respects, according to two Manchester University academics, "Localities have become 'hostile brothers,' flinging themselves into the competitive process of attracting jobs and investment by bargaining away living standards and regulatory controls for the vast majority of cities and regions. The scope for local economic intervention is limited to the creation of a so-called 'good business environment' which bends to the will of mobile capital. The competition engendered is at best a zero-sum game and at worst destructive... While economic 'success' remains elusive for most, it is increasingly fragile for those that have it... Attracting growth may be difficult, *keeping it* will prove harder still."

2.1.7 How will South Africa and the Eastern Cape fare under these conditions? Early evidence is disturbing. The Monitor Company -- which advises national government on industrial policy -- reported that "identical products were being made at substantially lower cost and/or higher quality by firms in other countries. Many of our industries exist only because of protection and subsidies." South Africa continues to fall behind international competitors. In the Swiss business school IMD's *World Competition Yearbook*, South Africa was ranked #37 out of 41 leading trading nations in 1994, #42 out of 48 in 1995, #44 out of 46 in 1996 and #45 out of 46 in 1997 (ahead of only Russia).

2.1.8 In the competition between countries, cities and towns engendered by globalisation (especially trade liberalisation), the Eastern Cape will probably not be particularly successful in attracting substantial new investment, nor indeed in achieving much growth. According to a 1996 study by the Industrial Development Corporation, "The Eastern Cape is the only province that will experience a negative impact on Gross Geographical Product as a result of trade reform. The expected 0.39% total decrease in GGP [in the Eastern Cape] can be attributed to the negative impact of trade reform on all of its major manufacturing sectors, save for tobacco and industrial chemicals." Even this is likely to be an overoptimistic assessment of South Africa's overall competitiveness, given that in 1994 the Organisation for Economic Cooperation and Development and the World Bank predicted an annual net loss for South Africa due to World Trade Organisation liberalisation rules, of US\$400 million by the year 2000. If the country as a whole loses Gross Domestic Product due to trade reform, the Eastern Cape's losses are likely to be dramatic.

2.1.9 If the problem of "hostile brother" competition leading to a zero-sum game is exacerbated by South Africa's lack of international competitiveness, the Eastern Cape's economic decline could well intensify over the next decade or more. Additionally, the problems identified with the performance of South Africa's macroeconomic strategy may prove debilitating. Yet -- as discussed next -- there are not only threats to municipalities within GEAR, but also opportunities.

2.2 GEAR's threats and opportunities

2.2.1 In mid-1996, as South Africa's currency came under attack (losing 25% of its value within four months), government attempted to halt the slide by announcing - without consultation within the society -- the *Growth, Employment and Redistribution* (GEAR) policy. Already it is clear that it will be risky to rely upon the potential success of GEAR at national level to prepare South Africa -- especially Eastern Cape cities, towns and villages -- for international competition. For GEAR has not yet shown signs of conclusive success. Indeed, because of missed targets in important socio-economic spheres, and because of South Africa's apparent lack of competitiveness more generally, it becomes all the more crucial to establish a strategy based on a people-driven alternative.

2.2.2 The missed targets are worrisome, comparing, for example, year-end 1996 to GEAR's 1996 targets. GDP was off the target by 10%, fixed investment off 20%, the real interest rate off 40%, the currency off 90%, and employment generation was nowhere near the GEAR target of 126 000 new jobs: on the contrary, the South African economy lost 71 000 jobs in 1996. While final 1997 figures are not available, it is clear that once again nearly all of the targets for 1997 were missed, particularly job creation (in which in contrast to 252 000 new jobs created, as GEAR promised, more tens of thousands were lost in 1997).

2.2.3 At the core of GEAR is fiscal discipline. Fiscal constraints have emerged as a perceived barrier to development, as pressure continually increases on government to reduce the annual budget deficit to 3% of Gross Domestic Product. Already, budget-cutting has affected municipalities, which from 1991/92 to 1996/97 were the victims of an 85% decline in Inter-Governmental Grant transfers from central to local levels.

2.2.4 Although leading political parties and civil society organisations in the Eastern Cape have expressed reservations about GEAR, it is also important to examine the opportunities offered in GEAR for LED in the Eastern Cape. What should be clear at the outset, is that GEAR was not actually intended to cut back on municipal expenditure -- particularly in relation to infrastructure investment -- but on the contrary specifically promised that such spending would contribute to meeting the basic needs of poor South Africans:

Reprioritisation within the health and education budgets, a municipal infrastructure programme, restructuring of the welfare system, land reform and a review of training and small business support policies are amongst the initiatives which aim to address the claims of the poor to a fair package of basic needs

2.2.5 Infrastructure is highlighted as a good public investment:

This strategy envisages a substantial acceleration in government investment spending, together with improved maintenance and operation of public assets. Higher growth is clearly critical in this regard, as is a thorough restructuring of the responsibilities of relevant public corporations, development finance institutions and local and provincial authorities... The provision of basic household infrastructure, in particular, is a relatively low cost and effective form of public intervention in favour of the poor and consistent with the reduction of income inequalities

2.2.6 Municipalities are even urged, implicitly, to spend more, and more effectively:

Although capital expenditure on the national budget has been increasing, actual spending has lagged, largely due to unspent RDP funds. Local authorities have also had some difficulty in maintaining capital expenditure

2.2.7 Contrary to perception, GEAR endorses the further hiring of local authority personnel and construction sector workers rather than their rationalisation and retrenchment:

Employment by local authorities has fallen over recent years. This trend should now be reversed, as consolidated authorities take responsibility for revised jurisdictions, municipal infrastructural development gets under way and service delivery is improved. The ongoing maintenance and service provision associated with improved services under local jurisdiction should be expected to lead to growth of between 50 000 and 100 000 jobs by the year 2000... There is more scope for increased employment at local government level associated with social and infrastructural development projects. These initiatives will include activities in which significant numbers of unskilled and semi-skilled workers could be employed, bringing down somewhat the average wage of total public sector employment

2.2.8 Thus a careful reading of GEAR shows that notwithstanding spending cuts, central government retains -- in theory -- an overarching commitment to increasing municipal infrastructure spending. This is even more clear in relation to basic infrastructure in rural areas, through which Eskom, the Department of Land Affairs, the Department of Housing, the Department of Water Affairs and Forestry, Telkom, and the Department of Public Works all anticipate large and, in aggregate, growing infrastructural investments (not to mention increased building of primary health clinic and schools by the Departments of Health and Education). What should be clear is that an LED strategy grounded in supply of basic infrastructure and services is not against the spirit or the letter of the macroeconomic strategy.

2.2.9 In sum, it is important for Eastern Cape cities, towns and villages to not rely upon top-down macroeconomic policy for their potential growth, job creation and redistribution, but instead to return to their own strengths, which follow from their citizens' own capacities and needs. As shown above, such a basic-needs emphasis does not contradict the national policy; the key issues are how much can be spent, what subsidies will be provided, and how do municipalities link meeting basic needs (especially infrastructural) to a strategy for local economic development. For in the event of GEAR's continued difficulties, municipalities will need to assess both their constitutional responsibilities and the legislation that assists them in meeting their residents' basic needs, in order ultimately to prove that such investments are wise in social and economic (and ecological) terms. The Constitution and local government legislation are the subjects of the next two sections.

2.3 Constitutional mandates to meet basic needs

2.3.1 The Constitution grants to all South Africans an equal and inalienable right to housing, health care, water and social security. It requires the state to take steps to fulfil this right:

26.(1) Everyone has the right to have access to adequate housing.

(2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

27.(1) Everyone has the right to have access to:

a. health care services, including reproductive health care;

b. sufficient food and water; and

c. social security, including, if they are unable to support themselves and their dependents, appropriate social assistance.

(2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights

2.3.2 To these ends, the Constitution contains specific principles applicable to all spheres of government, including the need to "secure the well-being of the people... [and] provide effective, transparent, accountable and coherent government." Particular municipal functions include "developmental duties," in that the municipality must structure and manage its administration and budgeting planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community, and to participate in national and provincial development programmes.

2.3.3 The Constitution also spells out the internal functions necessary for effective and democratic governance, and the precise functions of municipalities (in relation to concurrent and exclusive national and provincial powers). The operative principle is that municipalities receive administrative responsibility over areas that are "most effectively" administered locally and where "the municipality has the capacity to administer it." In so doing, municipalities have a duty to respect the Constitution's overall approach, in the Bill of Rights, to equality of access to services:

Equality includes the full and equal enjoyment of all rights and freedoms. To promote the achievement of equality, legislative and other measures designed to protect or advance persons, or categories of persons, disadvantaged by unfair discrimination, may be taken

2.3.4 This is an extremely important part of the broader mandate insofar as it ensures that municipalities can progressively seek to ensure that citizens receive access to services that have been historically denied them, using "legislative or other measures" (such as subsidies and cross-subsidies) so as to eventually achieve equal levels of service delivery standards across the municipality. The national municipal legislative framework is discussed next, particularly in relation to the responsibilities municipalities have for assuring that basic infrastructural needs are met in a manner conducive to efficient, equitable development.

2.4 Integrated planning and Land Development Objectives

2.4.1 As mandated by the Development Facilitation Act (Act No. 67 of 1995) (DFA), and amendments to the Local Government Transition Act (Act No. 97 of 1996) (LGTA), the planning objectives for local government councilors and officials are to rationalise and simplify all the processes involved in planning, and to integrate these so they are coherent. Initially, this requires Land Development Objectives (LDOs) that set out concrete targets for land use. More generally it entails broad-based development sensitive to the needs of low-income residents, women and the young and old, disabled people, the environment and other groups once neglected in development planning. The municipal Integrated Development Plan (IDP) should attempt to meet these objectives.

2.4.2 Land Development Objectives

2.4.2.1 Even before the mandate to prepare IDPs was established, LDOs were already required by the DFA. According to the Act, municipal laws, policies and administrative practice should facilitate development of formal, informal, existing and new settlements; discourage illegal occupation of land, yet recognise informal land development practices; and promote efficient and integrated land development. The objectives of integrated land development are:

- *integration of social, economic, institutional and physical aspects of land development;*
- *integration of rural and urban areas in support of each other;*
- *creation of employment opportunities in close proximity to, or integrated*

- with residential areas;*
- *optimal use of resources such as agriculture, land, minerals, bulk infrastructure, roads, transportation and social facilities;*
- *diverse land uses;*
- *discouragement of urban sprawl;*
- *correction of historically distorted spatial patterns and optimal use existing infrastructure; and*
- *environmentally sustainable land use practices.*

2.4.2.2 In order to encourage contributions from all sectors of the economy to integrate land development, the DFA suggests that national, provincial and local government define the role of each economic sector with respect to both land development and the relationship between the sectors. A competent authority in national, provincial and local government should furnish the public with details of any land development laws it administers, the names and positions of the responsible officials, the addresses and phone numbers of the relevant offices.

2.4.2.3 The DFA insists that the objectives be clear and available to all those affected, and that they promote trust and acceptance on the part of those likely to be affected. In addition, the DFA insists that land development be within the fiscal, institutional and administrative means of the country. Development must establish viable communities; protect the environment; meet the basic needs of all citizens in an affordable way; and ensure the safe use of land. Municipalities should promote speedy land development and stimulate the effective functioning of a land market based on open competition between suppliers of goods and services. Members of communities affected by land development should participate in development processes, and skills and capacities should be developed.

2.4.2.4 The DFA specifies that each land area should be judged on its own merits and no particular land use should be regarded as less important as any other. Land development should result in security of tenure and offer a range of tenure options. The municipality's role is also to coordinate the various sectors involved in or affected by land development so as minimise conflict over scarce resources.

2.4.2.5 All of these functions should be encapsulated in LDOs, which are objectives showing how people in a particular municipal area gain access to basic services such as water, sanitation, transport, health and education, and the standard of those services. LDOs must contain objectives relating to urban and rural space and form, particularly on:

- *how poorer areas will be integrated into the area as a whole;*
- *how the environment will be used in a sustainable manner;*
- *how transportation will be planned;*
- *how bulk infrastructure for the purpose of land development will be provided;*
- *what densities there should be in settlements;*
- *how land development should be co-ordinated with other authorities;*
- *how land use should be controlled;*
- *how natural resources should be optimally used; and*
- *any other matter as contained in regulations.*

2.4.2.6 LDOs must also contain strategies in relation to:

- *how to optimise the involvement of sectors of the economy, particularly financial institutions and developers in land development;*
- *how to obtain finance for land development;*
- *how to build adequate administrative and institutional capacity to deal with*

- *land development in the area; and*
- *any other matters contained in regulations.*

2.4.2.7 LDOs must also contain goals that are quantifiable, including statistics such as the number of housing units and other facilities planned for; the nature of housing development (i.e. whether upgrading, new delivery, etc); the rate of delivery and how much it will increase in the future; and any other matter as contained in the regulations. Finally, a municipality may require that environmental evaluations are undertaken to check on what the likely impact of LDOs will have on the environment.

2.4.2.8 It is also important to consider a variety of ways in which LDOs relate to other parts of the development process. In relation to Development Tribunals, the DFA states that a tribunal or other authority shall not approve a land development application if it is inconsistent with any LDOs that have been set (so long as this does not cause any delay). In the event that LDOs are inconsistent or incompatible with any other related plan, the LDOs override or amend the plan. Any provincial MEC may amend or withdraw a plan deemed to be a regional structure plan or an urban structure plan; and must also approve LDOs. Hence as LDOs are set, plans made in terms of other legalisation (particularly the Physical Planning Act) lose importance. Moreover, LDOs indirectly override zoning schemes set in terms of the ordinances. When a land application is submitted to a tribunal, the tribunal may publish conditions of establishment that have the effect of amending a zoning scheme or that stipulate whether or not a zoning scheme should regulate the land development. If LDOs have been set, these could be viewed by the tribunal as the regulatory framework within which to view land applications; they effectively give a tribunal power to override existing zonings.

2.4.3 Integrated Development Plans

2.4.3.1 The IDP includes the objectives of land development in the context of an overall economic strategy. It should be derived from broader principles, and must both satisfy national legal requirements -- in the DFA and LGTA -- and receive the approval of provincial authorities. Initial attempts by municipalities to establish a planning cycle around these principles and requirements should be completed before December 1997 (although there is a clause which allows the provincial MEC for Local Government to extend the time period); subsequent plans should modify and amplify the basic approach.

2.4.3.2 It may be useful to view the IDP as a cycle relating to other municipal planning and budgeting. Once a municipality has (a) established a vision about the way it wants to develop -- so as to avoid ad hoc decision-making -- then (b) the LDOs should be united with the municipality's approach to economic planning, to form a "development strategy." The strategy must be realistically assessed in terms of (c) the finances that can be raised and spent for the purpose of integrated planning, (d) the municipal personnel and related institutional reform required, and (e) the citizen participation and open governance processes that all municipalities should be establishing.

2.4.3.3 Although the initial IDP will not be fully comprehensive, even in its early stages, the IDP cycle should have the effect of building a strong foundation for good municipal governance. Those municipalities that lack

planning expertise and experience can still establish an IDP if there is political willingness to experiment and think innovatively, and a determination to integrate cities and towns which have developed in a segregated way for generations. As the IDP cycle progresses, there will be stronger "lateral thinking" and more consultation across specialisations, more community ownership of the process, and more attention to economic and environmental concerns. Perhaps most usefully, the IDP provides a framework -- and concrete steps to follow as well as a process for dispute resolution -- so that even poorly resourced and still divided municipalities can simply undertake a single process that ultimately conforms with all national and provincial requirements.

2.4.3.4 In four areas -- management, finance, monitoring and community involvement -- there are important differences and similarities between LDOs and IDPs. There are also specific LGTA provisions for metropolitan councils (regarding land use, transport, infrastructure and integrated economic planning) and general provisions for local, rural and district councils.

2.4.4 The merits of IDPs for LED

2.4.4.1 Integrated planning is meant to synthesise the various innovative planning traditions that developed over the past few decades. In particular, community-based planning, corporate strategic planning and environmental planning are all recent additions to traditional physical planning approaches. To achieve integrated and sustainable Local Economic Development, it is crucial to take forward the lessons of each.

2.4.4.2 Firstly, since the 1970s, *community-based planning* has been popular amongst municipalities that take governance and participation seriously, and that realise the importance of a community ownership stake in social service provision and physical development. Secondly, in the context of increasing competition and growing resource constraints, *strategic planning* became popular over the last decade in companies (as well as NGOs and government agencies) to help establish long-term visions, goals and short-term action plans, with an eye to maximising efficiency and effectiveness. Thirdly, *environmental planning* has been widely accepted since the 1970s as the basis for measuring the broader ecological "footprint" of development activities, and for prescribing actions that limit ecological damage. Integrated municipal planning must take forward all of these innovative planning traditions, and ensure that the different systems they relate to are increasingly working in harmony, not in conflict. To do so requires also having a systems perspective.

2.4.4.3 Planning is essentially about the coordination of systems. With or without government planning, underlying systems take their course, including the eco-system (our environment), the economic system (the market economy) and social systems (such as families, local organisations, kinship networks, and communities). Most citizens expect municipal planning to maximise the benefits from the interaction of these systems while ensuring that there are sufficient liberties and checks on each system so that both (ecological, economic and social) viability and order are maintained. This is a tall order, because it requires municipal officials to think laterally, to be aware of unintended consequences of their actions, and to factor in much broader systematic effects than they ever have before. It means that municipalities must -- simply to maintain the carrying capacity

of their environment -- champion the "green" agenda so as to conserve their watersheds and other natural resources for future generations. They must do so while advancing households' "brown" (municipal environmental) interests such as having increased access to safe water and clean energy. They must adopt a feminist perspective so that, for example, an intervention aimed at increasing the participation of women in development does not derail women's other roles in family life and income generation activities. And officials must be aware of which markets they can effectively support or direct, and which they cannot.

2.4.4.4 In terms of the planning cycle associated with IDPs, a prerequisite for resource reallocation, budgeting and personnel deployment is that municipalities should be engaged in institutional reform. This entails reprioritising the activities of the municipality, largely through processes of public participation. Among initiatives that can be opened for increasingly public discussion is the municipal budget. Participatory budgeting is an essential part of the overall IDP, for it allows councilors, officials and citizens to understand the resource capacities and constraints. The budget process should include a public review of the existing tax base, revenue, income, capital spending, operating spending. This should be done in conjunction with establishing new priorities, including ranking the line items of expenditure, as well as assessing the possibility of a no-growth budget option (consistent with the Medium Term Expenditure Framework). The implications of reprioritisation should be clearly spelled out regarding shifts in both capital and operating expenditure. And possibilities for private and community participation and financial leverage should be explored.

2.4.4.5 Personnel resources are extremely important, for it upon a municipality's staff that much of the implementation of the IDP rests. Assessing personnel requirements requires a personnel audit; a Human Resource Development strategy; and affirmative action to assure representativity and to correct inherited imbalances.

2.4.4.6 Finally, resource allocation should be aimed at integrated social and geographical development. This means assessing which resources exist -- and where -- in the form of land availability, transport, housing, bulk infrastructure and other goods and services for which municipality has leverage. The location of other amenities such as healthcare facilities and educational institutions should also be considered.

2.4.4.7 It is in the intersection of the main systems -- ecological, social and economic -- that most planners agree on the need for government to manage "sustainable development." There are obvious conflicts, for example, between the ecological system's conservation or waste reduction requirements, and the economic system's drive towards growth, extension of markets and profit maximisation -- and its ability to pass on the costs of these activities directly to the environment; or between economic development activities and community demands for participation and the satisfaction of human needs. Effective planning can begin to reconcile local conflicts by bringing different systems towards greater harmony and balance. However, not only is it important to establish ways in which various stakeholders representing these systems can make their views known -- so that interests are transparent and conflicts emerge in a way they can be mediated -- but it is also crucial to know the ways in which, as a municipality, it may be possible to plan.

2.4.4.8 In considering the planning process, it is useful to break it down into components. Municipalities generally have responsibilities to ensure that at least five components within each system are functional: infrastructure, programmes, procedures, management routines and management interventions.

- The *infrastructure* components include capital investments (such as water, sanitation, energy, public transport, recreational facilities and the like).
- The *programme* component entails the ongoing servicing of the system (such as a public safety programme or a housing joint venture scheme).
- The *procedural* component includes the rules and regulations that relate to service provision (such as development approval processes).
- *Management routines* are repeated activities (such as rubbish collection or building inspections).
- *Management interventions* are specific attempts to change the system (such as pollution control).

2.4.4.9 As integration of social, economic, and ecological systems intensifies through post-apartheid political and economic reforms, and as friction or contradictions between them come into perspective, technical approaches associated especially with infrastructure investment can help municipal officials draw together an Integrated Development Plan that cuts across and reconciles many of the systems that may otherwise be hidden from view.

2.5 Conclusion

2.5.1 This chapter has considered the conditions for Local Economic Development associated with globalisation, the national macroeconomic policy, the Constitution and municipal legal requirements. In short, globalisation entails a threat that municipalities will adopt futile strategies characterised as a "fight between hostile brothers" and that these are mainly aimed at lowering the social wage so as to attract investment. If all cities, towns and villages pursue this route, it will result in a zero-sum game. Macroeconomic policy, the Constitution and municipal legislation all point to a different LED strategy, aimed at meeting basic infrastructural needs.

2.5.2 The above information provides only the global and national context for LED. What is more important is understanding the local conditions. We can begin with the provincial situation analysis in the next chapter.

Chapter 3. Eastern Cape Situation Analysis

3.1 Social backlogs and economic trends

3.1.1 The Eastern Cape has enormous potential, but is suffering in two key respects: a failure to meet basic socio-economic needs, and stagnation in key industries. Can both problems be solved at once, as the province better integrates production and consumption? Can this be organised from the bottom-up, at municipal levels ranging from small rural towns to the provinces main cities? The Eastern Cape's enormous unmet basic needs are considered at the outset (Section 3.2). Next, the size, sectoral distribution, and location of economic activity are traced over a ten-year time period (Section 3.3). Finally, some preliminary ideas about linking backlogs to municipal economic processes are sketched out (Section 3.3), primarily as an introduction to Chapter 4.

3.2 Failure to meet local economic needs

3.2.1 The Eastern Cape has an estimated 6,559 million inhabitants' Population densities -- 38 people per square meter (15% higher than the national average) -- are unevenly distributed. Rural dwellers account for 65% of the population, 4,271 million compared to 2,288 million urban residents. Of the total rural population, 47% are less than 15 years of age, compared to the urban figure of 32%.

3.2.2 Poverty remains a striking problem. The average income per person per year of Eastern Cape residents is just R3 985 (in 1994 rand), compared with R8 148 for South Africa. Relative poverty is also extreme, with the per capita income of the poorest 65% of Eastern Cape residents equal to that of the poorest 40% of South Africa as a whole. According to the Eskom Omni Panel, 41% of households have a monthly household income of less than R500. A further 41% have an income below R1 400. The figures for South Africa as a whole are 30% and 32%.

3.2.3 The major unmet basic need in the Eastern Cape is employment. According to the 1995 October Household Survey (the latest available data), the unemployment rate in the Eastern Cape is 41% (compared to 29% nationally). This figure is calculated from the "economically active" population, which excludes more than half of all Eastern Cape residents (who are unavailable for formal employment because they are under age 15 or are students, scholars, housewives, retired people, pensioners or disabled people unable to work). Women account for 54% of the total population, but have only 45% of all jobs.

3.2.4 The areas of the Eastern Cape with least jobs per economically active residents are EG Kei, Eastern Region and Northern Region, but even the Central Region and Western Region have rates far higher than the national average. Overall, the unemployment rate in rural areas is 49%, and in urban areas, 33%. The unemployment rate for women in rural areas is 56%. To some extent, as Table 3.1 shows, those who are not formally employed have taken recourse in informal "self-employment" activities, largely as a survival strategy.

Table 3.1: Economic Activity and Unemployment in the Eastern Cape

Area	% not economically active	% of economically active population unemployed	% of economically active registered as self-employed	% of economically active unregistered but self-employed	total population older than 15 years
Rural	61,0	56,4	0,7	8,6	2 353 268
Urban	39,9	32,0	1,7	9,1	1 282 416
Inf.settlements	57,8	32,5	0,0	21,1	86 040
E.Cape total	53,6	45,0	1,1	9,1	3 721 724
S.Africa total	44,5	31,9	2,0	8,5	25 156 182

Source: Ntsika Enterprise Promotion Agency (1996), "The Informal Sector," Unpublished paper, p.10

- 3.2.5 It must be noted that during the 1980s, local pressures associated with economic decline were offset through expansion of the Eastern Cape's public administration, as many tens of thousands of administrators were hired in ex-homelands and apartheid-era bureaucracies. As a result of overstaffing, more than 10 000 civil servants are facing retrenchment within the province.
- 3.2.6 Aside from jobs, other basic needs listed in the RDP include access to land, housing and services, water and sanitation, energy and electrification, telecommunications, transport, environment, nutrition, health care, social security and social welfare, education and training, arts and culture, sport and youth development. Only incomplete provincial data are available.
- 3.2.7 Information on land ownership -- particularly land held communally and land owned by the state -- is still unreliable, with the exception of commercial farming land surveyed by the Central Statistical Service. Excluding the ex-homelands, there were 6 500 farms in the Eastern Cape during the late 1980s, occupying 10,6 million hectares and employing 97 000 farmworkers (and with an additional 8 700 tenant farmers). The largest number of farms (2 000) and farmland (5,3 mn ha) are devoted to sheep, beef cattle (1 500 farms on 2,3 mn ha), mixed farming (1 500 farms on 2,0 mn ha), milk cattle (450 farms on 0,2 mn ha) and vegetables (200 farms on 0,07 mn ha).
- 3.2.8 There is a housing shortage of at least 150 000 units in the Eastern Cape, according to recent estimates by the Eastern Cape provincial government. There are presently 100 000 units that are state-owned and in the process of being transferred to long-time residents. According to the Central Statistical Service, there are 1 245 000 households in the Eastern Cape, of whom 647 000 live in houses and 380 000 live in "traditional dwellings" or huts. A further 70 000 live in backyard structures of a formal type, 21 000 live in backyard shacks and 76 000 live in other shacks.
- 3.2.9 Water and sanitation are unevenly distributed. Only 28% of Eastern Cape households have running water in the home, and 16% have running water

on site. A total of 56% of all households have to obtain their water from other sources. In urban areas, 73 000 households obtain water from communal standpipes. In rural areas, only 14% have running water on the property; 86% obtain water from other sources, most commonly streams, unprotected springs, rainwater tanks and communal standpipes. The nearest source of water is more often than not a considerable distance from the household: 59% have to go 200 metres or more to fetch water, 25% have to go one kilometre or more.

- 3.2.10 Only 32% of households in the Eastern Cape have flush toilets. A further 9% have ventilated improved pit latrines, 31% have unimproved pit latrines, 10% use bucket toilets and 16% have no sanitation facilities. In the case of 12% of households, sanitation facilities are shared. In urban areas, 20% of households rely on bucket toilets. In rural areas, 26% of households have no sanitation facilities and 51% have no facilities within 25 metres of the dwelling.
- 3.2.11 There is also uneven access to energy. More than half the households in the Eastern Cape do not have electricity and there is a heavy reliance on wood, paraffin and candles. The main sources for cooking are wood (32%), paraffin (31%) and electricity (28%). The main sources for heating are wood (34%), paraffin (33%) and electricity (26%). The main sources for lighting are paraffin (41%), electricity (37%) and candles (20%). In the rural areas, only 12% of households have access to electricity. The main sources of wood are indigenous forest and the veld. Long distances have to be covered to collect wood: in 80% of cases it has to be fetched from further than 200 metres, in 50% from further than 1 kilometre.
- 3.2.12 The ratio of health facilities to population in the Eastern Cape is lower than for the country as a whole. There are 0,3 medical officials per 1 000 of the population, compared to a national figure of 0,6. According to the Eskom Omni Panel, there is a clinic or hospital in only 49% of communities, compared to 62% for South Africa. In the rural areas in the Eastern Cape, 58% of households are further than 5 kilometres from the nearest clinic and 81% take half an hour or more to get to the nearest clinic.
- 3.2.13 Educational levels are significantly lower in the Eastern Cape than in South Africa as a whole. Only 43% of the population have achieved standard 7 or higher. The ratio of pupils to educators is 21% higher than in all of South Africa.
- 3.2.14 Telecommunications are extremely limited, with telephones in 37% of urban dwellings and only 4% of rural dwellers. Of those without a telephone in the rural Eastern Cape, 60% must travel more than 5km to find a public phone.
- 3.2.15 Such unmet basic needs are not only a major problem for Eastern Cape policy-makers, but are potentially one part of the solution to economic decline. As shown next, major sectors of the economy are facing decline. If resources are harnessed and sound policies adopted, links can be made between developmental goals and a restructured economy. The economy would need to be structurally reoriented, however, through extensive planning.

3.3 Eastern Cape economic trends

3.3.1 Overall, the Eastern Cape economy has suffered a deep economic slump over the past ten to fifteen years. Clearly, the failure of the formal economy to meet basic needs, as documented above, is also a contributing factor to the failure of the formal economy in terms of output and employment creation. Moreover, while wages have performed somewhat more successfully, the dramatic rate at which workers have been replaced with machines has meant that those who have jobs must spread their wages to more people within their kinship networks than before.

3.3.2 As shown in Table 3.2, the peak years for output and employment were 1981-82. The previous decade (1970-81) had experienced 4.4% annual growth. During 1981-1986 there was a dramatic decline in real output (nearly 10%). Employment fell over the course of more than a decade by 14%. Although there was an upturn during the late 1980s, during the national depression of 1989-93 the Eastern Cape lost another 7% of output.

3.3.3 The Eastern Cape economy's most important sectors are services (27% of the provincial output), manufacturing (26%), commerce and catering (including tourism) (15%) and finance, insurance and real estate (11%). Sectors that were particularly hard-hit during the 1980s and early 1990s include manufacturing (output down 20% from peak levels of 1981-82) and construction (output down 16%). Most major sectors also experienced severe job losses, including manufacturing (10%), construction (33%) and transport (40%). Average wages fell in the manufacturing, construction and finance sectors. To some degree, this reflects a higher ratio of capital to labour (K/L) in production -- suggesting that workers were replaced by machines -- especially in manufacturing, commerce and transport.

**Table 3.2: Economic Decline in the Eastern Cape
Real Percentage Change from Peak (1981-82) to 1993**

Category	Output	# Jobs	Wages	K/L
Total	-8	-14	+7	+25
Non-Agriculture	-8	-14	+9	+30
Agriculture	0	-13	-8	-14
Manufacturing	-20	-10	-3	+48
Commerce*	+8	-3	+25	+18
Construction	-16	-33	-9	-5
Transport**	+5	-40	+25	+60
Finance***	+16	+50	-9	-10
Electricity****	+55	+15	+5	+4
Mining	-2	+10	+10	+130

Source: National Productivity Institute, *Productivity Statistics 1995*, Pretoria^a

3.3.4 Decline in the formal sectors of the economy was accompanied by a rapid growth in the informal sector, which was also prompted by deregulation and relaxation of certain apartheid restraints. By 1994, according to the Ntsika Enterprise Promotion Agency, the entire Eastern Cape had an estimated 128 000 unregistered companies in the self-employed, "survivalist sector" and 35 000 "micro enterprises" (which usually employ fewer than ten workers) employing 61 000 people. (No comparative data from earlier periods are available.)

3.3.5 The location of measurable economic activity is highly concentrated. As Table 3.3 shows, according to one measure -- turnover -- Port Elizabeth alone is responsible for about half of the activity in the Eastern Cape's major urban centres. (Along with Umtata, the deconcentration points of Dimbaza and Butterworth are the major ex-homeland centres of economic activity, but these are not reflected in reliable data.)

Table 3.3: Turnover in Eastern Cape Cities and Towns, 1993

City	R billion
Port Elizabeth	21,0
East London	12,2
Uitenhage	4,3
King Williamstown	1,9
Queenstown	1,4
Stutterheim	0,6
Albany	0,5

Source: Central Statistical Service, based on levies received by Regional Services Councils, by magisterial district (excluding ex-homelands).

3.4 Possibilities for bottom-up provincial economic policies

3.4.1 If present trends continue, the Eastern Cape will lag further behind national achievements in economic growth, employment and redistribution. Uneven development within the province will also be exacerbated.

3.4.2 In each of the major areas of basic need -- jobs, land, housing, water and sanitation, energy, healthcare, education, telecommunications -- there are formidable backlogs. Yet because some of the economic sectors that have grown fastest -- such as electricity, water and transport -- are also directly related to unmet basic needs, there is a potential for linking growth and development. It will be crucial, in this regard, for the province to tap national funding sources so that available subsidies and credit can be channeled directly into Eastern Cape infrastructural development. This should be done in a manner consistent with labour-intensive growth, so as to avoid the situation that is evident in the transport sector in which growth has been accompanied by severe rationalisation of jobs.

3.4.3 In other areas, such as manufacturing (which lost one fifth of output during the 1980s and early 1990s), the problem of excessive capital intensity must first be addressed directly, and it would be worthwhile for Eastern Cape producers to note that the Department of Trade and Industry's tax incentives and subsidies explicitly encourage labour intensity.

3.4.4 One sector that would directly link production and consumption is the construction industry, which has large overcapacity due to the shrinkage in volume of output. As discussed below, there are important multipliers associated with infrastructural development for employment and small business generation.

3.4.5 By focusing more on enhancement of backward and forward linkages, that both meet basic needs and contribute to economic growth, socio-economic objectives can be addressed simultaneously. As the RDP put it,

The RDP integrates growth, development, reconstruction and redistribution into a unified programme. The key to this link is an infrastructural programme that will provide access to modern and effective services like electricity, water, telecommunications, transport, health, education and training for all our people. This programme will both meet basic needs and open up previously suppressed economic and human potential in urban and rural areas. In turn this will lead to an increased output in all sectors of the economy, and by modernising our infrastructure and human resource development, we will also enhance export capacity.

3.4.6 This is consistent with the ambition amplified in the 1997 Budget Review by Finance Minister Trevor Manuel:

For this vision to materialise, policies must be oriented towards the provision of basic needs, the development of human resources, and a growing economy capable of creating sustainable jobs. The success of the RDP is inherently bound by our ability to generate this developmental and redistributive thrust within a sound fiscal and macroeconomic framework.

3.4.7 Eastern Cape provincial and local officials, as well as civil society, can work towards these ends by taking advantage of national programmes aimed at meeting basic needs, and linking these, in reinforcing ways, to economic sectors with high growth potential. All investments, expenditures and other economic initiatives underway throughout government, business and civil society should forcefully incorporate such goals and principles.

Chapter 4. A People-Driven Approach to LED in the Eastern Cape

4.1 Local Economic Development and basic needs

4.1.1 It would be ideal, given the information presented in Chapter 3, if Eastern Cape provincial and municipal government achieved a joint capacity to meet basic needs in a manner that stimulated economic growth. To explore this issue entails assessing what some of those needs are (and how to measure them) (Section 4.1); describing methodologies for making such a strategy viable, through expanded cost-benefit analysis and through investments in basic infrastructure (Section 4.2) that have broader social multipliers realised through redistributive pricing mechanisms (Section 4.3). These are particularly notable regarding infrastructure-related economic goals (Section 4.4). In addition to financing LED through central government's infrastructure grants, there are a variety of other incentives and programmes being developed by the Department of Trade and Industry (Section 4.5), although these tend to have limited relevance to meeting basic needs. Finally, both orthodox and innovative municipal interventions are also considered (Section 4.6).

Table 4.1 Indicators of need-satisfactioⁿ

<u>Category of human need</u>	<u>Satisfier characteristics</u>	<u>Available sample indicators</u>
1) food and water	appropriate nutritional intake	calorie consumption, access to safe water, malnutrition rates, low birthweights
2) housing	adequate shelter, space and services	percentage homeless and in inadequate shelter, rates of sanitation facilities, rates of persons/room
3) work	non-hazardous environment	incidence of hazards, deaths and injuries from work-related accidents or diseases
4) physical environment	non-hazardous environment	percentage who experience concentrations of pollutants
5) health care	access to appropriate care	medical staff/beds per capita, percent lacking access to services, percent not immunised
6) childhood needs	security, childhood development	percent of children abandoned, abused or neglected
7) support groups	presence of others	no reliable indicators
8) economic security	security	percent in absolute poverty, percent in relative poverty, percent with no protection against contingencies
9) physical security	safe citizenry, safe state	rates of homicide, of crime victims, and of victims of war or state violence
10) education	access to cultural skills	rates of education, years of formal study, rates of specified qualifications
11) birth control and child-bearing	safe and hygienic conditions	access to contraception and abortion, maternal mortality rate

4.1.2 To begin, it is worth revisiting the kinds of categories of basic needs and considering how they may relate to LED strategies. As shown in Table 4.1, the most comprehensive consideration of such needs, along with means of measuring them, comes from the work of Loyal and Gough, and begins with four areas -- food/water, housing, work and the physical environment -- over which municipalities have extensive power of intervention. The list of basic needs corresponds to South African municipalities' own Constitutional and legal mandates, as shown in the next two sections.

4.2 Infrastructure investment

4.2.1 Having established that there is a Constitutional mandate for local authorities to pursue development, and that legislative provisions relating to LDOs and IDPs are helpful guides to local economic planning, it remains to begin exploring in detail how economic activity can be generated through leveraging investment funding sourced both locally and from beyond the municipality. We begin with capital investments that are anticipated using national and provincial infrastructure funds. To some extent these funds are provisional upon the housing budget being both increased and more effectively allocated. But the general principle of using infrastructure as the basis for LED is valid regardless of the funding source, for reasons discussed in this section.

4.2.2 The leveraging of government infrastructure funds into meeting basic needs, and in turn into broad-based LED, relies upon the recognition that the linkages and multipliers associated with infrastructure investment are potentially very important. To explore these linkages and multipliers requires at least a rudimentary consideration of cost-benefit analyses. Certainly, it is difficult to quantify subjective social values such as the price tag of a clean environment or the value of public health (which in turn entails making judgments on the value of human life). Yet some estimates about the various costs and benefits associated with enhanced infrastructure for public health or the environment can indeed be attempted, if only to demonstrate the variety of methodological techniques for making these estimations. In addition, other benefits related to environmental sustainability, gender equity and desegregation of apartheid municipal planning also follow from sound, integrated infrastructure investment planning. It should be conceded in examining each of these issues that the degree of sophistication in quantifying and applying the analysis remains low. But although it is difficult at this stage to specify how Eastern Cape municipalities would specifically be affected by infrastructure investment, some preliminary calculations at national level are made. Recommendations are advanced, in the concluding section, that increasingly sophisticated pilot projects analyse the impact of the interventions to assess how LED can be enriched.

4.2.3 Public health benefits of infrastructure investment

4.2.3.1 The public health benefits of infrastructure provision (water and sanitation, electrification, paved roads and drainage) are enormous, and are worth detailed consideration. This is true internationally, and is widely recognised by even international financial institutions. In South Africa, several researchers have quantified the direct health benefits of water, sanitation and electrification, in terms of cost savings to the health sector due to reduced illness, as well as indirect health benefits and potential cost savings.

4.2.3.2 To begin with an example relating electrification of households to public health effects, studies have shown a range of estimates based on the average costs of these effects. In the case of illness, these included transport costs, medication, lost production, and costs of treating in- and out-patients. For death, valuation estimates from a range of international studies were used and adjusted to take account of South African income levels. Valuing human life is a methodologically complex and controversial area, and thus valuation estimates should be considered conservatively.

4.2.3.3 Even without considering the provision of electricity through free

"lifeline" tariffs for domestic consumption (which would dramatically increase usage by low-income households), it is clear nevertheless there are large *net* public health benefits from raising electrification standards so as to reduce pollution associated with inefficient energy use (such as domestic burning of wood, coal or paraffin). (Lifeline tariffs are discussed in the next section.) Some of these costs (such as indoor air pollution) are limited to households, while others (deforestation, pollution caused by burning coal in urban neighbourhoods) are costs that society as a whole pays for. On the other hand, increased electricity service levels may cause additional ecological costs due to the generation of electricity to meet additional demand (although the amount of increased demand associated with much higher domestic standards would not exceed 3% of total use).

4.2.3.4 Based on the experience since Soweto was electrified in the 1980s, and in the first five years of Eskom's accelerated electrification programme, *under conditions that did not include lifeline tariffs*, it has been observed that when electricity is provided it generates a substitution effect for higher-value services such as powering lights, radios, televisions and small appliances. Without a lifeline tariff, energy-intensive applications such as cooking, space heating and water heating are more expensive if electricity is used rather than coal, wood and paraffin. Yet even without the benefit of a lifeline tariff, it is evident that there are environmental improvements associated with moving from one level of service to another, as shown in Table 4.2.

4.2.3.5 Based on previous studies -- and again considering that these have not factored in the implications of lifeline tariffs -- it is possible to make some national monetary estimates of the incremental benefits of improving service levels. The abatement percentages in the Table 4.3 are subjective judgements based on a range of studies undertaken of newly-electrified households around the country. In view of the fact that there is nothing pre-determined about the extent of fuel switching and electricity use, these percentages are unavoidably crude proxies for actual substitution effects, but nevertheless constitute reasonable average values under present pricing conditions (as discussed below, however, these would increase if lifeline tariffs were applied). If electrification occurs at intermediate and full levels in urban areas alone, the net benefits begin at roughly R100 million in 1997 and rise (in present value terms) to R200 million in 1998, R400 million in 2001, and R800 million in 2005. In rural areas, the net environmental benefits of electrification rise more gradually, to R50 million by the year 2005.

**Table 4.2 Impact of electrification on environment
(without lifeline tariffs)**

Change in service standards	Impact
No service to basic service	electricity will replace the use of candles and paraffin for lighting, and batteries for small appliances, but there will generally be no cooking or space heating at Basic levels
Basic to intermediate service	without a lifeline tariff, additional electricity use is likely to occur only for some cooking, use of small appliances and perhaps a refrigerator (depending on household income)
Intermediate to full service	without a lifeline tariff, the extent of additional electricity use is highly dependent upon household income, and on the economics of different appliance-fuel combinations; for most low-income households, additional electricity use will be negligible; a very small proportion of households is likely to install hot water geysers which will substantially increase electricity consumption and replace other means of water heating

**Table 4.3 External costs and percentage abatement
at different service levels
(without lifeline tariffs)**

Externality	External costs (R per h/h per year)	Basic standard % abated	Int. standard % abated	Full standard % abated
Air pollution (coal)	307	0%	25%	30%
Air pollution (wood)	944	0%	5%	5%
Fuelwood collection	291	0%	5%	5%

4.2.3.6 Another methodology for quantifying admittedly subjective public health considerations that has recently become popular is the Disability Adjusted Life Year (DALY) approach. There are various conceptual and moral problems associated with DALY measurements' but they do provide at least one baseline approach for considering the net costs or benefits of infrastructure investments relating to public health. With respect to the provision of water, for example, abatement of diarrhoea can be enhanced through increased access to water, since the disease is generally transmitted through food-borne processes or directly transmitted via fingers, eating utensils or dirt. Such water-washed transmission can be dramatically curtailed by increasing the quantity, availability and utilisation of water. According to Sanders and Groenewald,

Here distance to the water source is of the utmost importance as well as the promotion of positive water-use behaviour. A recent burden of disease study in developing countries, using the DALY to measure burden of disease, ranks diarrhoeal disease as one of the largest causes of disease burden. It is estimated to account for 8.1% of total DALY loss in these areas. Infants and children carry the main burden of inadequate water and sanitation-related disease with more than 80% of the DALY loss due to diarrhoea being the result of infections in children under age 5...

The expected decrease in morbidity rates associated with access to adequate levels of water and sanitation is regarded to be between 22% and 46%. One study shows that a decrease of between 35-50% can be expected, if improved water and sanitation are combined with excreta disposal and hygiene education. Another shows that up to 70% of diarrhoeal disease cases can be attributed to inadequate disposal of child faeces and garbage and poor caretaker hygiene'

4.2.3.7 The financial benefits to the public health system associated with diarrhoeal disease abatement can be estimated, if only for morbidity (not mortality, which is also highly significant), by considering the cost of treatment. According to Sanders and Groenewald, by assuming only a 22% reduction in diarrhoea morbidity, and a conservative estimate of levels of hospitalisation and direct hospitalisation costs of R2250 per diarrhoea case, "We would estimate that the provision of intermediate/full water and sanitation services to urban and densely populated rural areas is likely to result in a total direct cost saving of approximately R779 million to the health sector [discounted, over a ten-year period]." At a national level, direct health sector cost saving that would stem from upgrading infrastructure investment from government's proposed mix of basic, intermediate and full to entirely intermediate and full service levels, was at least R570 million with respect to water and sanitation, and almost R450 million with regard to electrification (assuming 80% access by 2012). This saving is the direct result of investment in urban infrastructure, and should be included in any financial evaluation of the urban infrastructure investment as a return on the initial investment. A higher-than-average proportional amount of savings would be anticipated in the Eastern Cape due to the province's more severe public health problems.

4.2.3.8 Such conclusions have implications in the broader debate concerning financing and affordability. The issue of health sector financing is particularly pertinent in the light of the disparity between health expenditures and health outcomes in South Africa. In addition, as noted below, indirect health benefits will also result in substantial savings due to the release of time, particularly women's time, which can be used for child care and productive activities; improved worker productivity; and opportunities for education.

4.2.3.9 These findings are important from the standpoint of installation of infrastructure. They are not surprising, for countries with the largest gaps in the quality of infrastructure between the wealthy and the poor, have the worst overall health status. In addition to ethical and moral arguments, there are sound public health arguments for improving infrastructure in the poorer areas. Many of the diseases related to poor infrastructure are contagious, and as such, have the potential to threaten the health of higher socio-economic groups in the vicinity (these include cholera, malaria, dengue, filariasis, yellow fever and tuberculosis). It is shortsighted to provide a lower level of infrastructure given the longer term potential for environmental degradation.

4.2.3.10 In sum, health is primarily produced at the level of the household and is directly related to the living environment, which includes infrastructural service provision. There is much evidence, international and local, to demonstrate the significant health advantages of improved infrastructure. The health gains will be both a direct result of improved water, sanitation, electrification and drainage, as well as indirectly achieved mainly through releasing women's time for caring and productive activities.

As noted below, these effects are amplified when not only physical infrastructure is installed, but a lifeline tariff system is applied.

4.2.4 Environmental costs and benefits of infrastructure investment

4.2.4.1 The environmental impact of infrastructure and services is complex, for at the level of South Africa as a whole it entails both benefits and costs. In comparing pit latrines to water-borne sewage, for example, not only is the latter a potentially far more environmentally-friendly approach (particularly in the many areas affected by inopportune geological conditions). In addition, alternative systems for treating effluent should also be considered due to risks associated with leakage from centralised treatment systems.

4.2.4.2 Concerns over water quality apply to both surface water and groundwater, and reemphasise the case for higher standards of infrastructure and maintenance. In general, although environmental costs and benefits related to water are difficult to measure, in even a single water treatment pricing exercise (in which flush toilets were compared with the need to purify water affected by pit latrine effluent), substantial net benefits -- in excess of R100 million per year -- arise from higher standards (flush toilets instead of ventilated improved pit latrines) in concentrated residential environments.

4.2.4.3 There are also environmental effects of higher electricity service levels. These include benefits of reduced air pollution from coal and wood.

4.2.4.4 As another example, stormwater drainage systems must be viewed in a holistic manner, given the wide ranging consequences of inappropriate drainage systems. The current approach tends to be narrow, component-based, and does not include innovative stormwater management, and instead provides drainage solely based on community income while ignoring regional environmental costs and benefits. Innovative, holistic systems could be both more cost effective and equitable.

4.2.4.5 On the other hand, environmental damage may arise from increased utilisation of water and electricity by those who presently do not have access. But it should be clear that the additional requirement -- 1-3% of present capacity, according to most estimates -- will not be overwhelming in comparison to other benefits. In addition, there is no doubt that water and electricity conservation should be improved, and increasing tariff blocks for higher consumption is a well-recognised approach to this end.

4.2.5 Women, infrastructure and local socio-economic development

4.2.5.1 The benefits of infrastructure investment for women -- in relation to both economic activity and care-giving -- are easily recognised. Women are the primary care-givers and homemakers, and hence the benefits of infrastructure and service delivery are disproportionately felt by women, and likewise the burden of inadequate standards of infrastructure also fall upon women. There are several aspects to women's utilisation of time that can be enhanced through better infrastructure, relating to time spent in water queues, time spent gathering fuelwood and making fires, time spent walking from place to place because road conditions are not amenable for public or private transport, and time spent on other tasks that could otherwise be directed elsewhere if proper infrastructure was in place.

4.2.5.2 To take one example, time savings due to the nearness and availability of an improved water source has been reported to lead to more time for child care, including breastfeeding and better food preparation. Time saved could be used for agricultural or income generation activities which could result in better family health. In addition, women's savings in energy expenditure from bringing water closer to households results in reduced incidence of low birth weight babies born as well as a corresponding reduction in energy intake which could be transferred to children.

4.2.5.3 Similarly, time savings due to the use of electricity for cooking and heating could be utilised in ways more beneficial to health. The time spent by rural households in South Africa (usually women) collecting wood for fires fall within the range of 5.2 to 18.6 hours per week (average 11.9). In aggregate each year, 1,2 million hours of travel time could be saved (nearly entirely by women), along with 12 million tonnes of firewood.

4.2.5.4 In such examples, the implications of women's daily practice in relation to infrastructure for policy, programme design and project implementation are all clear: the higher the level of infrastructure (up to a point), the more time can be freed for women to use constructively in other welfare-enhancing activities which contribute to LED.

4.2.6 The benefits of desegregation

4.2.6.1 As a final category of indirect benefits that should help promote LED, there is the urgent need to address social and spatial segregation. South Africa's problems of skewed geographical opportunities and race/class-biased residential location include not only the vexed questions of rural-urban location (vexed because of apartheid-era restrictions on urban residence by black people) and displacement-resettlement (given not only the legacy of forced removals but also contemporary community ability to resist involuntary displacement). Just as important -- and nearly unique in the global system -- is the question of whether infrastructure investment and service delivery breaks down, or in contrast cements, historical patterns of residential segregation.

4.2.6.2 Social, political and economic problems caused by apartheid segregation have been recognised for many decades. Deepening South Africa's democratisation process will to a large extent depend upon breaking down geographical barriers faced by black (African, Coloured, Indian) people, as well as reducing segregation of people according to their income class. Few citizens would deny that South Africa requires a qualitative shift towards the social integration of society, including residential neighbourhoods.

4.2.6.3 Even more so than racial bias, ongoing social-class segregation poses a short-, medium- and long-term danger to South Africa's cities and towns, in the form of unnecessary and inefficient residential division. Given that the immediate community is crucial as a shaping force for individuals' values, attitudes, aspirations, expectations, skills and opportunities, it is important to guard against apartheid-era "insider vs outsider" social divisions emerging in a now-deracialised way along class lines. By tolerating such segregation, politicians and officials both abdicate the moral responsibility to reunite sharply divided cities and towns, and forego the socio-economic benefits that come from integrated planning.

4.2.6.4 The benefits of community desegregation to low-income people are important, given how labour-related skills and education are passed along within communities. Studies have shown that education gains are higher within an entire community, and costs are lower, in cases where some families -- typically from higher income classes -- within the immediate area invest in skills.

4.2.6.5 Likewise, segregation prevents full and fair competition in an efficient and transparent labour market, particularly for low-income job-seekers. Information on job opportunities is not available to all, due to uneven access to door-to-door newspapers. Not all suitable candidates are available to employers due to travel restrictions. Informal networks are less extended and accessible, through, for example, diminished familiarity with employers and employees in the formal labour-market who in a desegregated community would potentially be neighbours.

4.2.6.6 In addition, segregated slum housing has a major negative impact on health and welfare, so integrated planning should aim to minimise ghettos occupied by low-income residents alone. It is true that South Africa's existing housing stock will be difficult to adapt for residential integration of income-classes. Houses in a geographical community are typically built within the same time-period, by the same contractor, in a very similar manner, aimed at meeting the same sorts of household needs, generally within the same price-category. A block of flats generally contains residential units that are (virtually) identical (if not in size, in style and quality), as opposed to a mixture of large and small, cheap and expensive.

4.2.6.7 Therefore, without adequate state intervention to diversify the housing stock, there tends to be a "natural" (developer-driven) concentration of singles, doubles, large families, etc. each in specific niches, geographically distributed across municipalities. In turn, this often leads to destructive redlining practices by financial institutions in declining areas and the creation of artificial sub-markets in which cash transactions (rather than credit) predominate, hence further lowering the market value of housing.

4.2.6.8 The implications include inefficiencies in the operation of the housing market, such that homelessness coincides with boarded-up houses and flats (as is now evident in some central cities), relative overinvestment occurs in some areas compared with others, the periodic rise and fall of property markets is amplified, and other undesirable effects go unchecked. By combining the provision of adequate levels of infrastructure and services with attention to the need for residential desegregation, government can make progress in preventing such phenomena from arising.

4.2.6.9 In addition, a central reason to promote integration through enhanced infrastructure investment and service delivery is to improve community ecology, which in turn has environmental, public health and social benefits. Middle- and upper-class households usually have larger plots than the average found in a low-income area, and will also have greater political capacity to demand more public open spaces in their communities. Such open spaces result in more greenery, more light, more fresh air, and physical spacing that in turn helps prevent the spread of fires and certain epidemics. Open spaces also provide more and safer areas for children to play, in contrast to the street with its dangerous litter and traffic. Air pollution caused by the burning of wood or coal fuel will be less concentrated in a mixed residential area, both because of the presence of better stoves

and heating systems among wealthier families and through the increased diffusion through open spaces.

4.2.6.10 Within integrated, efficient communities, financial burdens of maintaining local public facilities can be better carried by higher-income groups. Regarding roads, lower-income residents often don't have cars, but do require roads for rubbish removal and emergency access (ambulance, fire, police). Roads also create opportunities for the development of (semi-) public transport and road-related activities like vending.

4.2.6.11 In sum, developmental state planning is required to direct the structure, size, composition and location of infrastructure and housing so as to promote social and economic residential integration. It is not usually a viable option to try to direct people to migrate into existing lower-income communities. Instead, policies should aim at allowing people to remain within their communities when their (relative or absolute) economic or social conditions improve, rather than move away. As much as any social policy, this should help to avoid self-marginalisation from emerging in low-income ghettos.

4.2.7 Conclusion

4.2.7.1 In sum, the indirect benefits of infrastructure are extremely important. It is difficult to conceive of successful LED without good household health; decent immediate household environmental conditions; and opportunities generated through equitable provision of infrastructure throughout -- and hence desegregation of -- apartheid-era cities, towns and rural areas.

4.2.7.2 The proper application of cost-benefit analysis is necessarily an evolving science, but there is an enormous incentive for municipalities to embark upon such work in part to contemplate the wider, direct and indirect effects of infrastructure provision to low-income people. The broader social benefits of improved infrastructure can potentially justify much greater investments, higher services levels and deeper consumption subsidies than might otherwise be considered if only narrow "Financial Internal Rate of Return" calculations are made for each investment.

4.2.7.3 The implications for municipalities that desire linkages between infrastructure investment and LED include the need to monitor and evaluate the implications of their interventions, so as to realise the maximum gains. To do so will require not only physical infrastructure investment with these broader socio-economic goals in mind, but also a different approach to pricing of infrastructure-related services.

4.3 Infrastructure pricing

4.3.1 Putting infrastructure into the ground is not sufficient. There must be a means for municipalities to allow sufficient consumption of services by all residents, even those with very low incomes. But this goal contradicts the principle of "full cost recovery" that has emerged from globalisation pressures. Hence one of the most important national policy debates is how much to charge people for consumption of local services. After considering the problems associated with a cost recovery policy, it will be useful to propose a broader system of universal entitlements to basic services, financed through national, provincial or local cross-subsidies.

4.3.2 Problems with cost-recovery policy

4.3.2.1 If we consider the implications of the cost-recovery approach as regards the most critical service -- basic water supply -- it is clear that attempting to be thrifty by providing merely collective (not individual on-site) taps, as proposed for most rural water consumption, is penny-wise but pound-foolish. The collection of monies from standpipes poses considerable problems. A flat rate charge is inequitable in that it favours those consuming larger quantities and this has the potential for social conflict. Consumption related charges entail costly methods of collection which either lead to significant under-recovery of costs or significantly higher prices to consumers. According to a report by the South African Labour and Development Research Unit (SALDRU),

The most important disadvantage of public standpipes and water kiosks is that while the level of service is low, the costs of water are generally higher than those for individually-metered connections. People have to travel longer distances to collect water than consumers with private connections and therefore consume less water. On the other hand, for kiosks and public standpipes to be economically viable, water has to be sold at a price which is substantially higher than the bulk tariff. This is usually because the wages or profits of the water vendor (standpipe attendant or kiosk operator) have to be added to the bulk tariff. Ultimately, the result is that the poorer segments of the community, who are usually served by public standpipes and water kiosks, have to pay two to three times more for water than the more affluent and privileged consumers who have individual connections

4.3.2.2 The collection methods also embody a tendency to poorer levels of service, according to SALDRU:

A related problem with these water vending systems is that standpipes and kiosks have to be spaced in order to allow for a sufficiently large catchment of consumers to make their operation economically viable. The implication of this is that kiosks and attended standpipes have to be spaced further apart than uncontrolled standpipes, and that consumers are therefore forced to walk further to collect water. A further disadvantage is that the income from water vending is not very high. This is of course a product of attempts to keep the price of water down and the distances between kiosks or standpipes as small as possible. Increasing either the price of water or the distances between kiosks/standpipes (and therefore the catchment area) would increase the profitability of water vending, but would defeat the central purposes of supplying water at affordable rates and convenient distances

4.3.2.3 To illustrate, Umgeni Water sells bulk water to Inanda at R1.00 per kl and kiosks sell it at R2,80. Kiosk operators generate an average income of R374 per month. The provision of low levels of service is thus accompanied by serious inequities, according to the Palmer Development Group:

Many people in Inanda are required to pay more (per kl) for their water than communities elsewhere in Durban with much better levels of service. Within Inanda, communities with lower levels of service have to pay far more for their water than neighbouring communities with much higher levels of service... In general, the level of payment for services in these areas is very low, which is understandable in the light of the above facts

4.3.2.4 Even if the administrative costs of imposing a cost-recovery policy were lower, it still might not be wise in view of low levels of affordability. Nationally, according to an October 1996 government poll of South Africa's 878 local authorities (of which 52% responded), only 25% of total rates and service charges levied to residents was actually paid, with one third of the total bills consistently reflecting delayed payment or outright non-payment. Although more recent data were not available at the time this report was prepared, the arrears figure is known to have worsened considerably in mid 1997, although in many areas of the country where infrastructure cut-offs occurred it subsequently improved. However, most of the cut-offs were accomplished *en masse* through disconnection of bulk or connector lines/wires, so as to prevent illegal reconnection. Such a tactic is not likely to prove sustainable in the face of numerous constraints, such as an upsurge of water-related diseases, increasing creativity in finding ways to illegally reconnect around such obstacles, or potential constitutional challenges to right of access (since in many cases households were cut off even if they had paid, because they lived in the wrong area).

4.3.2.5 Therefore, the 1996 figures may prove to represent, over time, a relatively accurate equilibrium, as they were nearly constant over the preceding 18-month period. In August 1996, the total monthly bank balances of municipalities would cover only four months of the employee salary bill, with 77 local authorities unable to access resources to pay even one month's salary bill. Moreover, by mid 1996 37% of local authorities had not even finalised their financial statements for the previous year. Matters worsened in 1997, as more than 40 municipalities which had borrowed from the Development Bank of Southern Africa found themselves unable to service the long-term debt; prior to 1997 there were no such instances of arrears.

4.3.2.6 Although this low payment rate is sometimes said to be the result of actual formal boycotts or to a "culture of non-payment," in reality, non-payment is due instead to a combination of factors including poverty, lack of billing, disgust at the generally degraded state of most townships, the extremely high cost of transport (which is often the largest component of the household budget), broken promises of service improvements, alienation from white (or often black) local government officials, and so on. In some cases, residual anger at the historical subsidy that blacks provided white residents (due to not having a tax base internal to the black townships) remains, particularly amongst civic movement leaders.

4.3.2.7 As it stands at present, many low-income residents of black townships pay higher average amounts per unit of service than do residents of traditionally-white areas. Perceptions of economic injustice continue to prevail in many townships, thereby fueling resentment and sparking protest and even riots over payment for services. In Butterworth, for example, although there are few white residents left -- in the wake of the demise of national decentralisation subsidies that attracted (unsustainable, locally-delinked) manufacturing investment -- residents protested poor municipal service delivery during July-September 1997 (as well as on many other occasions), leading to at least one death. Such protests were even more violent in Gauteng province, where the houses of some township councilors were burned by angry community residents.

4.3.3 An alternative approach based on entitlements

4.3.3.1 The primary reason that infrastructure investments do not pay off is that many people do not have enough income to afford the ongoing (operating and maintenance) charges associated with the service. Eskom's rural electrification programme, for example, has had enormous problems paying for itself because consumption levels are so low due to lack of affordability. Clearly, an alternative approach is required based on the Constitutional responsibilities set out above, namely the provision of at least a basic minimal amount of water/sanitation (50 litres per person per day) and electricity (perhaps 100 kilowatt hours per household per month) as a lifeline amount, with higher volume consumption (i.e., following the 50th liter of water) attracting much higher (and rising) tariffs. In general, the best administrative system for this would be a free lifeline amount provided through metered taps and electricity, with technical systems to reduce the amount to be consumed to the lifeline minimum in the event of non-payment on amounts higher than that minimum. This is technically feasible and inexpensive, and has already been applied in some circumstances in South Africa.

4.3.3.2 The issue of consumption levels has implications for the wider benefits anticipated from infrastructure. For example, to realise the health benefits of infrastructure, the quantity of water is almost more important than water quality. For this reason, municipalities should strive to supply private household taps or at minimum yard taps when they make infrastructure investments, as distance to the water source is the most important factor affecting the quantity of water used by households. Improvements in both water and sanitation produce larger impacts than either alone. In addition, providing a lifeline source of water would make an enormous difference, given present low levels of per capita water consumption in low-income communities.

4.3.3.3 A cross-subsidised lifeline system must obviously be designed with a careful regulatory approach so as to avoid ruinous competition between individual service providers (municipalities or provinces competing for corporate investment or wealthy residents' settlement by lowering the cross-subsidies). For that reason the *Reconstruction and Development Programme* suggested that such redistribution occur at a *national* scale:

To ensure that every person has an adequate water supply, the national tariff structure must include the following:

- a *lifeline tariff to ensure that all South Africans are able to afford water services sufficient for health and hygiene requirements;*
- *in urban areas, a progressive block tariff to ensure that the long-term costs of supplying large-volume users are met and that there is a cross-subsidy to promote affordability for the poor, and*
- *in rural areas, a tariff that covers operating and maintenance costs of services, and recovery of capital costs from users on the basis of a cross-subsidy from urban areas in cases of limited rural affordability*

The electrification programme will cost around R12 billion with annual investments peaking at R2 billion. This must be financed from within the industry as far as possible via cross-subsidies from other electricity consumers. Where necessary the democratic government will provide concessionary finance for the electrification of poor households in remote rural areas. A national Electrification Fund,

underwritten by a government guarantee, must be created to raise bulk finance from lenders and investors for electrification. Such a fund could potentially be linked to a Reconstruction Fund to be utilised for other related infrastructural financing needs. A national domestic tariff structure with low connection fees must be established to promote affordability.

4.3.3.4 This approach to pricing services is not unusual when broader social objectives are at stake. For example, the South African government did not adopt a cost recovery approach to primary health care (it is free to all citizens) not only because health is a basic human right guaranteed in the Constitution's Bill of Rights and because low-income people's spending on healthcare is typically subtracted from spending on vital food and other components of good health, but also because it is administratively expensive to do so. It often costs more in cost recovery administration than can be squeezed out of low-income people desperate for treatment.

4.3.3.5 There is, similarly, a Department of Water Affairs and Forestry pilot project on tariff reform in the Western Cape town of Hermanus, featuring rising block tariffs and lifeline access for low-income people (hence a cross-subsidy from high-consumption to low-consumption households). The effect of much higher rates for high volume consumption, plus a lifeline, has been to raise levels of water access to those previously denied, to win dramatic increases in water consumption (approximately 30%), and to raise revenues for the local authority. The combination of lifeline service plus progressive block tariffs has been widely recognised as the best way to target subsidies so as to reach the poor.

4.4 Local infrastructure-related economic multipliers

4.4.1 The most direct way of enhancing local economic development is through employment that allows households to survive, reproduce and save for future consumption or investment. Infrastructure-related employment is largely in the field of construction. After considering the impact of infrastructure investment upon job creation, we examine the related issues of wages and working conditions, worker productivity, small enterprise creation and small farming. In addition, it is crucial to consider the way in which community participation can contribute to LED, and the Community-Based Public Works Programme offers lessons in this regard.

4.4.2 Infrastructure-related employment

4.4.2.1 Employment based upon infrastructure development was often anticipated to be the main engine of job creation in post-apartheid South Africa. According to the *Growth, Employment and Redistribution (GEAR)* strategy, "Construction is largely labour intensive and provides jobs and training, while improvements in housing and infrastructure enhance the productivity of labour and the quality of urban life." *GEAR* also estimated that "Government programmes can add a further quarter of the new jobs, mainly through accelerated labour-based infrastructural development and maintenance of public works in urban and rural areas." The *Green Paper on Public Works* noted that with respect to job-creation, "Some estimates are that 3-3,5 million people could benefit from public works programmes in South Africa today (depending on the state of the economy, the number participating at any one time would probably be 1-2,5 million).

4.4.2.2 Thus far such expectations have failed to materialise. Yet

infrastructure and housing continue to be key *Reconstruction and Development Programme* policy priorities, and construction work more generally remains an extremely important part of the labour market, as well as in relation to fixed capital investment. The sector as a whole contributed 6% of GDP and 35% of gross domestic fixed investment at its low point in late 1995; during the previous decade construction had reached a high of 49% of gross domestic fixed investment'

4.4.2.3 The main determinant of jobs in the construction sector is the volatility of the business cycle. To illustrate, during the recession of 1975-78, the number of construction jobs declined from 485 000 to 346 000 (29%), as real output dropped by 17%. With real construction output up 12% during the gold boom of 1978-82, the number of jobs rose by 42%, to 493 000. It has steadily declined since, though a small upturn in employment occurred during the last major building wave, 1986-89, before falling dramatically from 468 000 in 1990 to fewer than 300 000 by mid-1997.

4.4.2.4 Roughly half of the recent employment losses occurred during the 1989-93 depression, with the other half since the upturn began in 1993. Indeed the past few years of economic growth have not been kind to construction, and indeed 228 members of the Building Industry Federation of South Africa went into liquidation in 1994 followed by a further 232 firms in 1995 (when the workforce covered by Bifsa members -- master builders - - fell from 210 394 to 198 231, a drop of nearly 6%): Aside from mining, no other major sector of the economy lost more jobs during the long depression and through the upturn that followed. After briefly rising to 369 000 jobs in the third quarter of 1994, the construction sector lost 37 000 jobs over the subsequent eighteen months, just as major investment programmes, RDP Fund projects and the housing policy were meant to be coming on-line. Indeed in 1996, a year in which the housing policy was meant to have begun showing results, investors believed otherwise, and construction and building stocks on the Johannesburg Stock Exchange lost 35% of their share value, worse than any other sector' Formal construction jobs declined by 7%.

4.4.2.5 There are three main subsectors of construction work: residential (all forms of housing), non-residential (commercial and industrial units, community facilities and government buildings) and civil engineering (roads, sanitation, water, electricity, bulk infrastructure and structural elements of buildings). To give a sense of magnitudes, during the decade 1985-94, residential construction fluctuated between 28% and 31% of construction related GDFI; non-residential construction fluctuated between 28% and 36%; and civil engineering construction was between 37% and 42%. Residential and non-residential construction accounted for between 56% and 63% of the building sector as a whole. The residential part of this construction has declined by half since the early 1980s'

4.4.2.6 Public sector spending was between 40% and 50% of total construction from 1985-94, and public sector civil engineering investment between 63% and 77% of all civil engineering spending. Public sector residential investment represented between 13% and 22%, and public sector non-residential investment between 24% and 49% in the 1985 to 1994 period. It can be assumed that employment roughly followed these ratios. In addition, the public sector includes the National Public Works Programme and Community-Based Public Works Programme, which are

anticipated to have a major effect on short-term job creation but which have not demonstrated the capacity to produce at scale.

4.4.2.7 There have been three main sources of research on potential employment creation associated with infrastructure (including housing construction). These have been based upon formal sector jobs alone (conducted by Mullins and Merrifield), upon hypotheses about informal sector activity (conducted by the Building Industries Federation of South Africa [BIFSA]), and upon jobs associated with infrastructure investment through the "Urban Infrastructure Investment Framework" (UIIF). Since BIFSA's methodology highlights the *informal* sector and since much government policy indirectly lends itself to the development of this sector, it is worthwhile to include a description of this indirect feature within the construction industry.

4.4.2.8 Mullins calculated the relationship between construction and employment (based on assumptions relevant in the United Kingdom). By adjusting for exchange rate fluctuations, it is possible to estimate the ratio of employment per R1 million spent in the construction industry can be calculated. Of greatest influence is whether employment is in residential, non-residential or civil engineering construction, with employment varying between 12,5 jobs per R1 million in non-residential new construction to 23 jobs per R1 million in public housing construction. However, employment generation in the civil engineering sector is much lower, with only 6,7 jobs for every R1 million spent. But by adding employment creation in the informal sector -- specifically, Mullins' estimate of 49,7 jobs for informally-constructed housing -- the average for all housing construction is raised to as high as 29,6 jobs for every R1 million spent, a figure competitive with labour-intensive manufacturing.

4.4.2.9 BIFSA's estimates for employment creation through construction are nearly as optimistic: 27,6 jobs for every million rand spent. The method used to arrive at this figure is -- using Receiver of Revenue statistics of total turnover in the construction industry (R18 billion) -- to extrapolate based on assumptions regarding the ratio of materials to labour (at specified levels of wages). Although the informal sector is not explicitly included in this methodology, total turnover does include building materials purchased from formal sector suppliers, which in turn lends itself to some measure of informal building activity, albeit indirect.

4.4.2.10 Based on differing assumptions about ratio of materials to labour, BIFSA generated scenarios about the components of construction that relate to differential skills. Drawn from industry data, the most common scenario for the components of construction work is the following:

- 26% semi skilled workers @ R72 per day
- 19% skilled workers @ R120 per day
- 50% unskilled workers @ R45 per day
- 5% supervisory staff @ R160 per day

4.4.2.11 The apparently low daily wage for un- and semi skilled workers takes into account the irregular nature of employment for workers in this industry, especially those in the informal sector who are usually laid off between contracts. By weighting skills in this way, BIFSA conclude that 27,6 jobs are created for every R1 million spent in the construction industry.

4.4.2.12 The UIIF assumptions and calculations were even more ambitious. On the assumption that intermediate-level standards would prevail on average for South Africa as a whole, for every R1 million spent on infrastructure, 200 person-years could be generated in construction work directly (along with another 30 person-years in indirect employment). The estimated job creation of bulk infrastructure, upgrading and new stands worth R19,2 billion would be 4,426 million jobs per annum.

4.4.3 Wages and working conditions

4.4.3.1 Many of the assumptions regarding employment neglect issues of wages and working conditions. These are arguably decisive variables as to whether low-income people can ultimately emerge into the formal economy with a modicum of consumption power.

4.4.3.2 In the construction sector as a whole, using 1990 as the base year, real annual earnings per employe^e can reliably be traced to the late 1960s. Real earnings were at a low point in 1967, at R12 543 per annum, rising to a peak of R17 144 in 1978. A decade later, in 1988, real annual earnings were down to R13 365, before rising again to R15 457 in 1993.

4.4.3.3 Such earnings seem to have only a slight correlation with the capital-labour ratio, which -- indexed on a 1990 base of 100 -- rose from consistent levels of 50 to 60 during the 1960s to 140 in 1978, before falling steadily back to the 100 base in 1990. There are no consistent time lags to suggest that high wages induce capital-intensity in production. Labour productivity also appeared to only slightly correlate to earnings, with the peak level of 150 (against a 1990 index base of 100) in 1971 falling to 117 in 1976, rising again to 127 in 1978 and dropping to levels of 90-100 during the late 1980s and early 1990s.

4.4.3.4 Broken down by province, there were wide variations in 1993 (the latest date comparable data are available). The average annual wage (in 1990 rand) was R15 457 for South Africa, R12 062 in the Western Cape, R8 349 in the Eastern Cape, R17 989 in the Northern Cape, R21 681 in the Free State, R13 441 in Kwa-Zulu Natal, R7 448 in Northwest, R23 310 in Gauteng, R21 786 in Mpumalanga and R6 436 in the Northern Province.

4.4.3.5 Broken down by race for a typical month during 1996, wages of 604 307 000 million were divided, on a *per capita* monthly basis, between 1 861 for all workers, 1 270 for Africans, R1 945 for coloured workers, R3 615 for Indians and R5 120 for white workers.

4.4.3.6 Inequalities within the construction sector division of labour are quite important. According to Bifsa, 50% of labour consists of unskilled workers who earn an average of R900 per month, and 26% are semi-skilled labour earning little more than R1400 a month. In other words, 75% of workers in the construction industry earn less than R1500 per month.

4.4.3.7 Regarding wages and working conditions, the mandate of the *Reconstruction and Development Programme* is that "All short-term job creation programmes must ensure adequate incomes and labour standards, link into local, regional or national development programmes, and promote education, training and community capacity and empowerment... Such programmes must not abuse labour standards nor create unfair competition within sectors of the economy." The Independent Development Trust

projects associated with the Community-Based Public Works Programme are often cited for providing inadequate income, poor labour standards, lack of integration and lack of community empowerment:

4.4.3.8 In the informal sector, workers are not protected by wage agreements, could not be protected by minimum wage legislation, do not have secure work contracts, usually suffer from inadequate safety/health conditions and do not have access to benefits enjoyed by most other permanent workers. In the informal sector, there is a distinct gender division of labour. Women are most often the builders of housing among poor communities when opportunities are limited to meeting household needs. However, when opportunities for informal builders emerge, such as sweat-equity schemes through government or donor sponsored self-help programmes, women tend to be prevented from accessing these opportunities by men from their communities.

4.4.3.9 Hence it was sometimes argued that in order to target such employment towards low-income (and rural) women, the wages and conditions for construction work must be relatively undesirable (in order that men are dissuaded from taking the jobs). After much debate, however, the general deterioration of work in the construction industry that has accompanied the rise of labour-only subcontracting has convinced the Department of Public Works to attempt to use its power as a major purchaser of construction services to transform the industry.

4.4.3.10 The Department of Public Works (DPW) White Paper, *Towards the 21st Century* summarises anticipated changes in the construction industry. The document spells out several areas where lessons have been learned about Community-Based Public Works Programme (CBPWP) implementation of infrastructure and other construction projects. A wide variety of CBPWP projects were considered, amongst the total 947 CBPWP projects entailing 5,3 million worker days. Some of the lessons relate to remuneration and safety/health in relation to the labour inputs, which are extremely sensitive in highly-unionised locales:

Recently, the wages, working conditions and job security of workers in the formal sector have been increasingly eroded. In particular, there has been a proliferation of labour subcontractors, many of whom pay workers on a contract basis at well below formal wage rates. In addition, there has been a lack of attention to health and safety standards in an industry which, due to the nature of work, is noted for its high accident rate. (3.4.2.4)

The DPW is committed to taking the necessary steps to halt and reverse the casualisation of labour in the construction industry. Regarding wage rates, the DPW endorses a minimum floor and a common wage order, covering all those engaged in construction activities, and taking account of regional and project specific variations based on the classification of job activities within which there may be grades of skill. Payment linked to productivity as opposed to time spent on the job could be permitted for categories of work for which labour may be substituted for machines in order to create jobs. It has been suggested by organised labour that payment of R50 a day appears reasonable and realistic, but the DPW is committed to a thorough process of engagement with the relevant roleplayers in order to arrive at an acceptable minimum. (3.4.3.5)

The DPW is committed to developing a regulatory framework with its social partners to set minimum levels of remuneration and conditions of employment for people working on CBPWP projects. These minimums must be set in such a way as not to undermine wages,

working conditions and job security in the formal construction sector.
(3.5.3.5)

4.4.4 Work productivity

4.4.4.1 It is not only the quantity and remuneration of jobs that is important, but increasingly the quality of employment and the depth of skills that employees bring to their work. There are several means of considering economic benefits that flow from enhanced literacy and productivity of citizens. Electrification reduces reproductive rates through altering social relationships and generating economic opportunities, and as a result, women in electrified areas place more emphasis on children's education than on children as productive agents. Electrification provides some of the essential prerequisites for education, such as lighting and opportunities for efficient administration. In addition it generates the potential for longer schooldays, opening of night schools and access to audio visual aids. It enables children and adults to study at home and offers the opportunity for health promotion through the broadcast media such as television and radio.

4.4.4.2 Education has been shown to impact directly on a range of variables which, taken together, contribute to the health status of domestic units and ultimately of the nation. There is a high rate of social return through investment in education and this rate of return is substantially higher for women than men. Female education has been shown to impact upon reproductive rates, child-rearing practices and child-mortality rates. Higher levels of maternal education have a significant impact on nutrition of children, improved child health and reduction in diarrhoea morbidity.

4.4.4.3 The use of electricity in a household can have several effects on the productivity of inhabitants. Firstly, improved lighting, as well as access to television, bring about considerable improvements to the quality of the working environment of students and scholars. The ability to study at home, although also dependent on other factors such as the number of people in the household and the number of rooms available, is certainly enhanced through electrification. Improved lighting and air quality (to the extent that the latter occurs) can also increase the quality of life of inhabitants and this has a positive effect on their productivity in places of employment or income generation.

4.4.4.4 Finally, good health results in fewer days lost to illness, increased productivity, greater opportunities to obtain better paying jobs and longer working lives. Healthier workers earn more because they are more productive and can get better paying jobs. Environmentally caused diseases have been shown to impair productive work and lead to heavy loss of income and malnutrition in family members. When illness occurs the loss of income is borne by the household and healthier members have to work harder and longer to make up for the loss in income. With a healthy workforce employers can reduce the cost of building slack into their production schedules, invest more in staff training and exploit the benefits of specialisation.

4.4.5 Promotion of SMMEs through infrastructure^e

4.4.5.1 The anticipated burgeoning of Small, Medium and Micro Enterprises (SMMEs) may be hampered at the outset if access to infrastructural services such as water and electricity is not ensured. This is particularly the case for

small enterprises (which tend to hire low-income workers) and for microenterprises (which are often a survival strategy for the low-income people themselves).

4.4.5.2 Such infrastructure access often comes initially through home-based activities, so a full supply of services (not limited, for example, to a single yard tap or small-voltage electricity meter) to residences can also be seen as an investment in Local Economic Development. It has been estimated that one new small business can be created for every ten electricity connections, and that during the next ten years an additional R8 billion will be spent on appliances from electrification (at existing rates of expansion). But measuring the impact of infrastructure on SMMEs is difficult.

4.4.5.3 To take one example, it is notoriously difficult to quantify the multiplier effects of electrification. Econometric studies of electrification have generated (unrealistic) estimates of up to 1 000 000 new jobs created during the first ten years of the programme, with an 11% cumulative increase in GDP. More accurate analysis based on recent experience with electrification suggests that for every 100 households which are connected, between 10 and 20 new economic activities are started. For example, electrical fridges are often acquired by small traders to store drinks and perishable goods; in one rural Kwazulu-Natal town, of 23 enterprises 21 required electrical refrigerators to store produce, meat and drinks for sale. The benefits of moving from very low electricity supplies (5-8 Amps) to an intermediate 20A supply are particularly large given the need to operate appliances such as refrigerators and small motors. For enterprises involved in welding or carpentry, higher levels of service are required.

4.4.6 Small-scale farming

4.4.6.1 The special case of water for small-scale farming enterprises is also worth consideration. Most emerging smallholder farmers, particularly from historically-disadvantaged racial and ethnic groups, at present generally work drylands. Since their activities -- unlike those of large commercial farmers -- do not significantly reduce water run-off, a common argument is that it may not make sense for the national Department of Water Affairs and Forestry to charge intermediate suppliers for water use (this could be achieved by expanding the overall water reserve, as has been done for basic household consumption).

4.4.6.2 A key reason for developing the capacity for state infrastructural support to small-scale irrigation systems, where this is geographically appropriate, is that small farmers have been particularly vulnerable to drought. The 1992 Consultative Forum on Drought assessed inequities prevailing in the rural areas during the prolonged drought of the early 1990s, when large-scale irrigation schemes continued to use water inefficiently, while drying up streams and dams that black farmers depended on for subsistence.

4.4.6.3 Benefits of irrigation infrastructure through increased small farmer self-reliance are obvious. Increased access to water would enable smallholders to increase production and improve food security and household income. However, many previous attempts to provide irrigation to emerging farmers were unsuccessful and the reasons are worth reviewing. For example, subsidies were provided selectively in the former homelands, but were generally failures from financial and institutional standpoints, for

reasons attributable in large part to their top-down, unaccountable management by a bureaucratic system which disempowered the black farmers. More than 200 small-scale farmer irrigation schemes were implemented, involving about 37 000 participants, with only around 25% of farmers able to make a profit. About 47 500 hectares were involved, a very small proportion of the total irrigated land of 1 300 000 hectares. Farmers were not allowed to own the land and had no security of tenure, were generally told what to grow and how to do it without adequate training, suffered from improper management of the irrigation scheme and thus unreliable water supplies, but bore all of the financial risk, including excessive debt burdens'

4.4.6.4 The context is important, for the system of migrant labour deprived many of these smallholdings of the labour needed to run them effectively, and women bore the burden of trying to eke out a living and care for children and a household. Moreover, lack of infrastructure inhibited marketing of produce, and still does in these areas. The subsidies provided during the apartheid era did not result in sustainable access to agricultural markets, though they may have furthered food security and produced a limited number of viable enterprises.

4.4.6.5 Yet while irrigation has the potential to add enormous value to crop production, there exists little potential in South Africa to introduce new large irrigation schemes given environmental considerations. It therefore makes sense to make optimum use of existing schemes. In order to reform such schemes and make them efficient, the issue of tenure would first have to be resolved, and a new regime of participatory management and decision-making put into place.

4.4.6.6 The Department of Land Affairs is implementing land reform with such broader objectives in mind. It would not make sense to raise the cost of water to smallholders during this initial stage of reform; a longer phase-in period for economic pricing should be granted emerging farmers than for large commercial farmers. It is also important to model the cost of water that these smallholders could potentially pay, given both a typical and an optimal crop production mix. Much of the data for such an exercise already exists.

4.4.6.7 Overall, there are very few independent black farmers who consistently market agricultural produce for profit, due to the historical disadvantages mentioned. Thus far the land reform program has been largely limited to small-scale pilot projects. But there are probably in excess of one million rural black farmers who presently rely on rainfall or low-tech irrigation from local streams or boreholes. Women are in the majority in terms of their work on smallholder farms, so not only are there equity considerations based on race and poverty, but also gender.

4.4.6.8 Improving access to water supply to these farmers is therefore important even if it cannot be sustained during the short-term on economic grounds. Economic water pricing could only address inequity if the water savings and revenue achieved from large users were available in part to provide a reliable supply to smallholders. A great deal of potential exists to augment income through agriculture by more secure access to water in the rural (and urban) areas.

4.4.6.9 One type of smallholder irrigation scheme that deserves attention is

small and micro-scale vegetable farming through community gardening. An estimated 150 000 people in South Africa participate in such arrangements, growing for surplus production as an income source. Usually, participants are responsible for their own plot, but cooperate to irrigate the garden, employing techniques such as controlled short-furrow irrigation from hand-dug canals or reservoirs, or bucket watering.

4.4.6.10 A secure source of water of only five litres per person per day may be enough to grow a modest supply of vegetables effectively, and could be included as part of the bulk domestic water supply. Relatively small amounts of reliable water could stimulate other income-generating enterprises, such as ceramics and brick-making, or food preparation and processing. In such cases, and more generally, women tend to be important beneficiaries of infrastructural investments.

4.4.7 In all these respects, there are impressive externalities associated with meeting basic needs, which in turn can become the basis for a people-driven LED strategy. But in order to realise the developmental externalities associated with infrastructure the municipality -- which, as the state, has the capacity to address the social costs and reap the social benefits -- must engage in deeper and more inclusive analysis than we have seen to date. Public calculations about the economic cost/benefit analysis associated with infrastructure contrast with those of private sector suppliers, who tend to rely upon only narrow financial cost/benefit analysis. To implement infrastructure and services provision in a manner that captures the benefits and minimises the costs, community-based participation in infrastructure investment and services delivery is quite important.

4.5 Community participation and investment in social capital

4.5.1 The need for *people-driven* development.

4.5.1.1 One of the most critical ingredients in a successful Local Economic Development strategy is the ability of people to organise, participate in planning processes, and ultimately take control over development projects and programmes that affect them directly. But this "people-driven" process can never be taken for granted. Indeed many of the criticisms that have emerged regarding development projects relate to the "window-dressing," or "non-consultative," or "top-down" character of delivery; to the lack of real training or capacity-building components in projects; and to the lack of attention to community-based maintenance that nearly all projects require.

4.5.1.2 Such flawed approaches have been inherited from colonial and apartheid legacies, and to the extent they continue to exist in the Eastern Cape, must be considered an historical aberration. After three and a half years of South Africa's first democratic government, it is critical to identify concrete mechanisms and processes that truly empower the disadvantaged, the poor, workers, women, the young and the elderly, disabled people, and all others who have been the victims of apartheid and underdevelopment.

4.5.1.3 This is the case not only in the Eastern Cape, but across South Africa and the world. There is increasing recognition by scholars and development practitioners that the concept of "social capital" -- in short, the social trust, cooperation and sense of common purpose that exist in a given community - is critical to successful development. There is also a recognition that just as the capital of firms, governments and households -- ranging from plant and equipment to public infrastructure to household savings, labour skills

and other assets) -- must continually be expanded through targeted investment, so too must the expansion of a community's social capital be given financial support.

4.5.1.4 The kinds of assets (or liabilities) often associated with social capital" include:

- 4.5.1.4.1 the depth and nature of community organisation;
- 4.5.1.4.2 the level and intensity of dislocation, crime and violence;
- 4.5.1.4.3 the existence of external structures -- ranging from NGOs to provincial and local governments -- that support communities;
- 4.5.1.4.4 the existence of measurable forms of social networks, trust and cooperative activity; and
- 4.5.1.4.5 levels of consciousness/awareness.

4.5.1.5 Eastern Cape municipalities should take the lead nationally in recognising and building upon the legacy of social capital. In the Transkei, the first "stokvels" were founded by women during the 19th century. Histories of ethnic, tribal and peasant organisation are legion. Unions became increasingly important during the 20th century, despite official attempts at repression. Political parties that faced banning and repression managed to operate underground throughout the province. And leading the recent revival of community organising, the first and most important civic associations in South Africa emerged in the late 1970s in Port Elizabeth.

4.5.1.6 In short, it should be clear that the Eastern Cape has an important advantage with regard to community-based organisation and the existence and possibility for expansion of "social capital." What is most crucial at this stage of the process is to nurture forms of community organisation and empowerment so that development can rapidly evolve from the present ineffectual model to one that truly entails people and communities and social organisations consulting and being consulted, participating and taking control. The most concrete manner in which this investment can be made is the recognition that communities have a basic right to capacity-building support ultimately aimed at helping government, the private sector and communities themselves accomplish locally-controlled development.

4.5.2 The right to LED capacity-building support for community organisations

4.5.2.1 The right of a community-based organisation to receive capacity-building funding from government has been confirmed in the *RDP* and the *White Paper on Reconstruction and Development*. According to the *RDP*,

5.2.7. A wide range of trade unions, mass organisations, other sectoral movements and community-based organisations (CBOs) such as civic associations developed in our country in opposition to apartheid oppression. These social movements and CBOs are a major asset in the effort to democratise and develop our society. Attention must be given to enhancing the capacity of such formations to adapt to partially changed roles. Attention must also be given to extending social-movement and CBO structures into areas and sectors where they are weak or non-existent... To play their full role, these formations will require capacity-building assistance. This should be developed with democratic government facilitation and funded through a variety of sources. A set of rigorous criteria must be established to ensure that beneficiaries deserve the assistance and use it for the designated purposes... Measures should be introduced to create an enabling environment for social

movements, CBOs and NGOs in close consultation with those bodies and to promote donations to the non-profit sector. This should include funding of Legal Advice Centres and paralegals.

4.5.2.2 This sentiment was amplified in the *White Paper on Reconstruction and Development*:

7.6.1 Capacity-building is required in civil society to ensure effective participation in RDP implementation... There will be financial support to civics and other community-based organisations during the course of an RDP campaign to establish Local Government legitimacy and hence improve both service delivery and user payments. Development projects such as those funded through the National Public Works Programme (with a business-labour-community commitment to labour-based construction methods) will also contain a far greater training and capacity-building component, with women targeted as beneficiaries. The Public Service Training Institute will make its resources available to civil society in addition to the civil service... Organisations of civil society should continue to have the choice of access to alternative sources of services such as policy research so that they are not completely dependent on Government. In addition, community-based development organisations will receive more extensive financial and logistical support once representativity, accountability and effectiveness are confirmed.

4.5.3 The nature of capacity-building support

4.5.3.1 What, explicitly, do community organisations require funding for? According to one network of CBOs, the SA National Civic Organisation, capacity-building support is multifaceted:

Capacity building has become a popular part of the jargon of development agencies, but they tend to consider it to be visits by "facilitators" and a few weekend workshops. Capacity building does require this, but it also requires much more. It always requires hiring someone locally as a community organiser. It also means training in management, financial control and bookkeeping skills that cannot be passed on in a weekend; this typically requires one to three month courses. Capacity building demands support and training which continues after the construction is done to ensure that management and maintenance skills are learned. Capacity building support might include vouchers for special training courses, for example for bookkeeping or management. Finally, capacity-building requires time -- for long meetings where people learn to take control, for the initial slowness in all processes as people gain experience, and for the local recognition of what skills are needed and what further training is required... In future, capacity building finance must be seen as essential and as a right. We must curb the power of unelected gatekeepers. The challenge for the new government will be to develop mechanisms which are simple, quick, transparent and efficient, while preventing corruption and ensuring broad participation

4.5.4 Options for funding community organisations

4.5.4.1 In addition to membership fees and private funding arrangements, there are four general options that Eastern Cape government can consider to help meet these objectives. Each has several pros and cons associated with them, and the following brief descriptions are only meant to begin teasing out some of these; a more detailed discussion -- along with measures to test efficacy and popularity -- should still occur amongst various stakeholders with community funding experience.

4.5.4.2 First, straight grants or in-kind support (free office space, phone, fax, electricity, water, etc) can be given to a community organisation. At national level, the new National Development Agency will attempt to secure resources. There have been many complaints by community organisations about such channels in the past, including their reliability, their political biases and the dependency relations they sometimes foster.

4.5.4.3 Second, grants for capacity-building can be linked to projects (usually on a percentage basis). In some cases, the Independent Development Trust factored in an additional 7,5% of total costs for local capacity-building in its rural drought relief projects. Three criticisms made were that the 7,5% was insufficient to deliver sufficient resources to community beneficiaries; the nature of such funding was not controlled by communities, and often evaporated into the pockets of high-priced consultants; and even the insufficient funding caused dependency relations to emerge.

4.5.4.4 Third, a system can be established such that money can be channelled to community organisations based on their popularity in a given geographical area, through giving some percentage of a local tax or tariff to the organisation according to the financial votes of those paying. In Gauteng and Mpumalanga townships, such systems were discussed and a few attempts were made at implementation during the early 1990s. There are many potential models for such a system, but optimally, ratepayers are given a list of community organisations to which a monthly R2 contribution (either voluntary or mandatory) could be channelled to, as part of their bill. They would make a check mark on their bill to indicate their first, second and third priorities. The organisations listed would be chosen on the basis of a formal non-profit status and ability to use publicly-generated funds transparently and accountably. The organisations would have the responsibility to tell constituents why they should receive funding support, and what such funds would be used for. The process could be repeated on a biannual or annual basis to ensure that if failure occurs, funds can be rerouted -- by popular mandate -- to other organisations.

4.5.4.5 Fourth, organisations can be provided with the ability to use existing government resources -- such as inserting short pamphlets in official mailings, which would not add to the mailing costs -- from agencies (especially municipalities) so as to make direct appeals for funds.

4.5.4.6 Each of the four options has been tried in South Africa and other countries, and each has costs and benefits. It is obviously desirable to test the support of each option with a variety of stakeholders involved in community funding. The question arises as to which options are preferable to community organisations, to funding agencies such as the Eastern Cape government, to ordinary citizens, and to direct beneficiaries. Each has

somewhat different interests. Focus group discussions in each municipality to establish the local sentiment would be optimal. Simple polling may be a second-best approach. Finally, a trial-and-error method in which all options are introduced under "control group" circumstances may also be appropriate.

4.5.4.7 Financial support for the people-driven character of LED is a prerequisite. But other features that provide true community ownership must also be addressed. An example of a government policy commitment to people-driven development is found in the field of public works.

4.5.5 Lessons from community-based public works

4.5.5.1 One of the main government documents which summarises the consultative, participatory and ownership roles of communities in the development process is the Department of Public Works (DPW) White Paper, *Towards the 21st Century*. The document spells out several areas where lessons have been learned about Community-Based Public Works Programme (CBPWP) implementation of infrastructure and other construction projects. A wide variety of CBPWP projects were considered, amongst the total 947 CBPWP projects entailing 5,3 million worker days. Aside from common concerns regarding efficiency, monitoring, and effective project administration, lessons from the CBPWP include addressing the short-term character of many infrastructure projects, improving training and skills development, intensifying labour inputs (in comparison to machinery) into projects, providing appropriate wages and working conditions, targeting recipients effectively, and maintaining the infrastructure and community assets over time.

4.5.5.2 Regarding the classical problem of "short-termism" -- public works projects only lasting a few weeks or months -- the DPW noted the following lessons from the CBPWP:

Many CBPWP projects provide short-term relief for the unemployed without further opportunities for employment. The temporary nature of the funding thus far has hindered planning, either for existing or new projects. This contributes to poor performance and high turnover rates amongst those involved in the programme and also prevents more effective implementation in a second round. Job insecurity means that people employed in a given project work less productively in an attempt to extend their period of paid employment. By stalling a project in this way, costs are increased and labour-intensive methods are undermined. Communities, which stand to benefit from the completion of projects, are also affected by delays. (3.5.2.9)

The DPW is committed to projects of sufficient duration to make a meaningful contribution to sustainable development of communities, as opposed to short-term projects of a relief nature. Changes currently being introduced to departmental budgeting procedures which allow for multi-year budgeting will assist in this regard. The location of a range of community assets within spatial development initiatives will create longer-term job creation possibilities. (3.5.3.3)

4.5.5.3 A related lesson concerned effective targeting of beneficiary groups:

The balance between women and men working on CBPWP projects is still generally biased towards men. Those women who participate in public works employment perform menial tasks, such as carrying, making tea and otherwise assisting men. Targeting the most needy is difficult, low-income rural women are often difficult to reach given poor channels of communication and inadequate access to labour market information flows. The inclusion of pregnant women is perceived by managers to be counter-productive to cost-effectiveness and delivery time. The needs of youth and the disabled have received very little attention. (3.5.2.12)

The DPW commits itself to the development of a coherent policy for targeting marginalised groups, including the development of clear criteria in this regard. In implementing the CBPWP, the DPW will continue to target women, youth, and the disabled and other marginalised sectors in keeping with the RDP principles. When considering the costs of projects, the social benefits of including the most needy will be given sufficient weight. The allocation of funds will be made contingent upon inclusion of these groups. Projects will be monitored to ensure compliance in this regard. The DPW will establish partnerships with SMMEs, community-based organisations, co-operatives and NGOs which focus on marginalised groups, particularly those that work with communities in rural areas. (3.5.3.6)

4.5.5.4 Finally, ensuring there are community-based structures available to ensure the maintenance of community assets was considered a vital improvement in the next round of CBPWP projects:

Although assets created through public works programmes are ultimately supposed to be maintained by line function departments, it has never been clear who assumes responsibility for maintaining the finished assets and many assets run the risk of falling into disrepair. (3.5.2.14)

The DPW is committed to co-ordination with other line departments to ensure that CBPWP assets will be maintained. (3.5.3.9)

4.5.6 Conclusion

4.5.6.1 All of these are appropriate lessons to take into municipal decisions regarding the economics of infrastructure investment and service delivery. The bottom line, however, is that the community organisations that fought hard for non-racial, non-sexist democracy in South Africa have a right to expect funding support as an entitlement. Such support can enhance the delivery of goods and services, as well as strengthen the social capital and the community fabric within a municipality. There is little question but that funding support for community organisations is in the interests of society as a whole. It is also a crucial prerequisite to ensuring the people-driven character of LED.

4.6 Municipal incentives for LED

4.6.1 To explore municipal incentives for LED entails discussing both orthodox approaches, as well as those that challenge existing assumptions and steer a firmer developmental hand. We begin with a review of investor demands, a consideration of development facilitation, and reviews of municipal tools such as rates holidays, land cost and service charge discounts, before examining progressive municipal

strategies to integrate development more closely.

4.6.2 Orthodox incentives

4.6.2.1 It is a matter for debate to what extent companies will choose to invest in an area based on orthodox incentive packages. Locational decisions made by companies are primarily based on the things that make or break their business -- access to markets and suppliers, good infrastructure, facilities and services (including security), and a streamlined and stable regulatory environment. Indeed, some studies suggest that incentives merely benefit those who would have invested in the area even without the incentives, and thus they represent an unnecessary loss to the municipality. Of course, incentives that make a difference to a company's bottom line, or which differentiate two otherwise very similar local authorities, are likely to influence a locational decision. But the focus cannot only be on new investors. Often neglected are incentives which support existing businesses, either to expand or simply to encourage them to remain in an area. Any incentive programme must be monitored rigorously to ensure that there is a net economic benefit to the local council and community and that its finances are not depleted as a result.

4.6.2.2 A recent Regional Industrial Local Study Investment Survey^y elicited responses from around 5 000 manufacturing firms throughout South Africa. According to the Survey, there were several types of incentives most important to these companies. Tax incentives were mentioned by 32,1% of firms; export incentives were second with 19,2%; and training support was the third most important, as listed by 18% of companies. Much lower on the list were transport incentives, a more flexible labour market, labour incentives, improved government services, import incentives, and better security.

4.6.2.3 **Catalysing the development process.** One of the most important qualities local authorities can have to facilitate new development is good service -- clear guidelines, a fast-tracked process, and expert staff who have the authority to complete deals.

4.6.2.4 **Rates holidays.** Local authorities commonly use rates reductions, holidays or rebates as an incentive to attract businesses. The two most obvious dangers are that this merely represents low-bidding by one municipality against each other (sometimes termed a "race to the bottom"), and that the income foregone by the local authority is not compensated for by the revenue raised due to the addition of new businesses. This is why caution is advised and firm evaluation mechanisms must be in place. The easiest rates holiday to justify as a first step, one that would make a big difference to developers, would be to withhold collection of rates on new townships until development begins. To avoid land speculation and delays, timelines or idle land taxes should be instituted and enforced -- if development does not begin in time, the property can become rateable. Other rates holidays to consider are where property owners cannot recover their costs and are in danger of abandoning or disinvesting from their properties, and where rates reductions can be shown to make a difference and help retain the employment in that area. An example of this could be the C and D-grade office development in the larger Eastern Cape cities, important as incubators for new businesses, but burdened with escalating rates.

4.6.2.5 Land cost discounts. There are large tracts of state-owned land that could be used as a meaningful incentive for developers. Specifically in areas which are identified by planning processes, land prices could be discounted to below market value. The amount of the discount could be determined by criteria important to the local state, such as job creation, spatial location, other amenities to be added by the developer, or agreements to preserve some of the land for open space or park area, or where appropriate for low-income residential use.

4.6.2.6 Service charge discounts. Service charges actually form a very small part of most business expenses. Therefore, they would not likely be a significant incentive for business location decisions. Moreover, the huge backlog in the extension of services to underserved households in the Eastern Cape means that every possible means of service revenue must be pursued. In such a context, discounts to industry may not be considered a priority. The exception may be agricultural activities, where, if charges for water increase as expected due to the new Water Act, a burden could be put onto smaller farmers. Subsidies or discounted water in this case should be explored (as is also underway at the national Department of Water Affairs). Another incentive relating to services has some potential. If in lieu of bulk service contributions to the local authority, the developer were to construct its own infrastructure, it could be a win-win scenario where the local state does not have to stretch its limited resources to complete the infrastructure required and the developer is not subject to the state's schedule in doing so. This practice is used extensively and successfully in the US and elsewhere to facilitate development. As long as this does not restrict access by the public (in other words, privatise) to use of infrastructure which is essentially public in nature (such as roads or access to water), it can be viable. In many cases, additional amenities and infrastructure that would not have otherwise been developed, has benefitted the public.

4.6.3 Progressive municipal tools for integrated development

4.6.3.1 There is a deeper meaning to economic development than is reflected in empirical discussions of which kinds of investment are occurring, where jobs are located and how municipalities can subsidise private sector activities. Just as important is the terribly difficult task of integrating communities, in order -- in part -- to realise the economic benefits that come from desegregating racially-biased urban geography.

4.6.3.2 Although formal racial barriers have been removed, many informal residues -- such as landlords denying the existence of vacancies to prospective black tenants, estate agents "steering" clients to particular communities, speculators holding land off the market or financiers writing off ("redlining") entire neighbourhoods as they become racially integrated -- remain. These can potentially be addressed through municipal by-laws such as prohibitions on unethical land and housing market activities, taxes on vacant or underutilised land, linking upscale development in one area to increased investment in an underdeveloped area, and linking municipal bank accounts to credit availability in low-income areas.

4.6.3.3 Even moreso than racial bias, ongoing social-class segregation poses a short-, medium- and long-term danger to Eastern Cape municipalities, in the form of unnecessary and inefficient residential division. Given that the immediate community is crucial as a shaping force for individuals' values, attitudes, aspirations, expectations, skills and opportunities, it is important

for municipalities to guard against apartheid-era "insider vs outsider" social divisions emerging in a now-deracialised way along class lines. By tolerating such segregation, municipal politicians and officials both abdicate the moral responsibility to reunite sharply divided cities and towns, and forego the socio-economic benefits that come from integrated planning.

4.6.3.4 To change matters in order to achieve both the social and economic benefits of integration, proactive efforts will have to be made. In addition to concrete tools that have been used successfully in other parts of the world, it is also important to expand the use of cost-benefit analysis for capital projects and service delivery. When transformational values and processes are welcomed by municipal authorities, the social benefits of intervening to correct apartheid race/class imbalances may far outweigh transitional costs (in the form, for example, of resistance by *status quo* vested interests).

4.6.3.5 There are various ways for Eastern Cape municipalities to intervene so as to transform the inherited geography of apartheid. Traditionally the most important power of municipal authorities is over land use, but across the world there are numerous examples of other effective innovations unrelated to land regulation that promote equity, citizen participation and a sense of civic pride.

4.6.3.6 Regarding land and property, South African municipalities have at various times exercised formidable powers over rates, property-related by-laws, health and safety regulations, rent levels, zoning, transport systems, geographical location of capital investments and even ownership (through rights of eminent domain). The new Constitution assures municipalities the right, in particular, to impose land-related taxes or fees so long as they do not "materially and unreasonably prejudice national economic policies, economic activities across municipal boundaries, or the national mobility of goods, services, capital or labour.

4.6.3.7 Clearly South Africa's land market must develop in a more orderly manner than occurred when, during apartheid, African township residents could not own property or borrow using property as collateral, and when various other restrictions applied to the geographical activity of other black South Africans. Strong interventions in land markets -- such as special taxes on vacant or underutilised land, or assisting formerly disenfranchised residents to gain access to state-owned land through restitution and redistribution programmes -- may be necessary simply to remove some of the inherited biases and distortions.

4.6.3.8 In addition, municipalities have other tools available for geographical, racial and social integration. There are many examples of innovative municipalities giving support to lower-income or marginalised groups through means such as:

- *local-level prohibitions on discriminatory behaviour;*
- *shifting tax and user-fee burdens to achieve redistribution across geographical and sectoral boundaries;*
- *imposition of regulations that force developers who are active in major projects in well-developed areas to set aside a percentage for investment in underdeveloped areas;*
- *requirements that new residential developments have a mixed-income component (such as a cross-subsidised set-aside for low-income people of 10 per cent of units);*
- *linkage of municipal bank deposits to on-lending for integration;*
- *direct or shared control of socio-economic enterprises (such as joint-*

- venture housing projects or municipal markets);*
- promotion of small enterprises (including Non-Governmental and Community-Based Organisations and cooperatives) through procurement and favourable tendering arrangements;*
 - affirmative action hiring; and*
 - lobbying provincial and national government in conjunction with citizens.*

4.6.3.9 These are merely examples of tools often used by municipal authorities to increase local geographical integration and to combat the extreme polarisation of income and wealth that often generates social tension. In light of the geographical irrationality and economic inefficiency caused by apartheid planning, these aspects of integration and the municipal tools that make integration viable, should be as high on Eastern Cape municipalities' agenda as the various incentives demanded by the private sector.

Chapter 5. Conclusion

5.1 Local Economic Development is a new field encompassing public policies, programmes and projects. The importance of LED for Eastern Cape municipalities is potentially enormous, given the broader context associated with difficult international and domestic markets, the declining Eastern Cape economy and the financial problems being experienced by many municipalities. The key question that emerges is how to allocate scarce resources available to municipalities -- whether large or small -- in a manner that is *amplified* throughout the local economy.

5.2 It is possible to amplify local expenditure by investing in activities that have strong multiplier effects and entail positive externalities. The *Discussion Document* argues that municipalities must make a high priority of meeting basic infrastructure-related needs as the basis for an LED strategy. Following such an approach will generate substantial financial benefits associated with improved public health, a cleaner environment, better use of women's time and desegregation. These benefits flow from citizen entitlements of minimum access to infrastructure-related services. If such entitlements are taken seriously -- including a 50 litre per day lifeline supply of water to each resident, and a lifeline electricity supply -- a set of direct and indirect economic benefits will result: the level of employment is raised dramatically; wages and working conditions improve; work productivity is enhanced; and small enterprises are stimulated. To ensure that these gains are part and parcel of a strong social fabric -- enhanced "social capital" -- requires improved community participation, which in turn requires resource flows to community organisations.

5.3 If a municipality decides to gear its LED strategy to meeting basic infrastructural needs, it is relatively easy to identify the financial and technical resources to proceed. The Eastern Cape Socio-Economic Consultative Council will help network provincial and national departments and agencies whose work in this area can be integrated. For example, national Departments of Constitutional Development and Water Affairs and Forestry, as well as Eskom, have direct funding responsibilities for infrastructure projects in various locales. The Eastern Cape provincial counterparts of the national Departments of Housing, Transport, Public Works, Health and Education all spend substantial sums on infrastructure. Other agencies, including the Development Bank of Southern Africa and foreign aid agencies, are involved in many aspects of basic infrastructure provision.

5.4 The most immediate sources of infrastructure funding are in the housing and infrastructure funds set by national government and administered provincially. However, the government's renewed commitment to Community-Based Public Works Programmes (especially in the Eastern Cape) also provides an appropriate funding source. What remains is the task of coordinating not only these institutions' capital spending so that a particular LED strategy is consistent with the flows of resources from national and provincial sources, but also the recurrent resources that are required to achieve the desired results. To some extent, the municipal tariff reforms and other local resources can be applied. But the Eastern Cape Socio-Economic Consultative Council also realises that for local LED strategies to have a truly enabling environment, the provincial and national policies that touch on LED must also reflect the knowledge that infrastructure for basic needs is not only a Constitutional and legal requirement, but also sound local economic policy.

Appendix: Existing national incentives for local development

1.1 A wide variety of incentive schemes are available at the national level, some administered by the DTI, many by the IDC, and a few by other institutions such as the Khula Enterprise Finance Limited. These have very little to do with the basic needs linkages discussed above. Instead, there are four different emphases:

- to encourage exports;
- to enhance competitiveness of industries in the face of increased competition from abroad;
- to encourage foreign investment; and
- to encourage development of SMMEs.

1.2 The content of the incentives vary, but can be categorised as follows:

- below-market interest rates or assistance in access to finance;
- tax holidays;
- grants;
- services such as trade missions and technical assistance;
- rebates and credits related to tariff barriers; and
- accelerated depreciation for firms expanding or establishing new plants.

1.3 Most of the incentives appear to be available to both South African and foreign firms. A few of the major programmes are described next:

1.4 Tax holiday^s

1.4.1 Tax holidays are meant to encourage major new manufacturing concerns in South Africa, which will result in long-term investment. The administering agency is the Board for Regional Industrial Development. Companies that are newly established (on or after 1 October 1996) have three-years from 1 October 1996 in which to apply for the tax holiday. For each of three 'components' or criteria, companies are eligible for a two-year tax holiday, for a total of up to six years tax holiday. The three components are:

- The business will be established in a spatial location listed in the regulations.
- The company is to be engaged in a set of manufacturing activities specified in the Regulations by SIC code.
- The company will meet a human resource component of 55%:

1.4.2 Companies must invest at least R3 million to qualify for tax holidays, and not be a "substantially same" manufacturing concern (for example, not simply taking over an existing plant -- the intention is to encourage *new* enterprises). Other considerations taken into account by the review board are the project's impact on the industry's competitiveness and on economic development, the degree to which it will create jobs and increase skills in the workforce, the financial viability of the project, the beneficial utilisation of resources, and that there will not be a negative impact on the tax base. The tax holiday is triggered by the first year in which the company owes taxes, and must be completed within 10 years of its approval.

1.5 Foreign investment grant

This grant is tied to the tax holiday program, in the sense that only those foreign companies who receive a tax holiday are eligible for it. It is designed to compensate the company for the costs to move new machinery and equipment from abroad to South Africa. Companies are eligible for qualifying expenses of up to US\$250 000. Only companies with a 50% or more foreign ownership interest qualify, and only for up to one year after the start of production. Countries participating in the South African Development Communities or the South African Customs Union do not qualify as foreign companies.

1.6 Accelerated depreciation

1.6.1 Another means to offset taxable income is depreciation of a company's assets. On a temporary basis (until 30 September 1999), government offers a 3-year accelerated depreciation on plant and machinery at 33.3% per year. This is for new equipment brought into use after 1 July 1996.

1.6.2 For buildings and improvements begun during the same period and brought into use before 31 March, 2000, the government is offering accelerated depreciation of 10% per year for 10 years -- this is half the normal depreciation period.

1.7 Schemes for export promotion

1.7.1 *Low interest rate scheme for the promotion of exports.* Administered by the Industrial Development Corporation, this programme offers low-interest finance to industrialists for investment in new equipment directed at export production. It is primarily for those companies with R1 million in assets, up to R120 million (companies with more than this qualify partially).

1.7.2 *Finance for the export of capital goods and services.* Credit is provided by IDC to finance exports of capital goods and services with at least 70% local content. The loan periods vary from 2-10 years, and are given in rands or U.S. dollars.

1.7.3 *Rebate provisions.* For manufacturers, rebates on duties paid for imported goods used to produce exports. Administered by the DTI and the Board on Tariffs and Trade.

1.7.4 *General export incentive scheme (GEIS).* This programme will expire at the end of 1997. It offered tax-free assistance on exports of manufactured products.

1.7.5 *Export finance scheme and credit re-insurance.* Pre- and post- shipment finance can be provided to SMMEs by participating banks, for up to 90 percent of export orders. The loans are guaranteed by the Credit Guarantee Insurance Corporation (CGIC) of South Africa. The CGIC and the Department of Trade and Industry also provide exporters insurance cover against political and transfer risks, and commercial and insolvency risks.

1.7.6 *Export marketing assistance schemes.* The Department of Trade and Industry administers these programmes, providing financial assistance to South African companies exploring or concluding export possibilities abroad, and financial assistance to companies from abroad for buying missions within South Africa. The Primary Export Market Research Scheme is designed for SMMEs to make contacts with potential international markets. In addition, the DTI sponsors trade promotion exhibitions in which South African companies can participate.

1.7.7 *Steel product exporters.* Most primary steel exporters promote exports of secondary steel products by offering price rebates, so that these products can be priced competitively on the international market. Also, there is the Fund of the Committee for Secondary Manufacturers, which provides benefits to secondary steel product exporters (who have added at least 25% to value).

1.7.8 *Duty Credit Certificate Scheme* (for clothing and textile exporters). Administered by the DTI, designed as a temporary measure to encourage these industries to export.

1.8 Schemes to enhance industry competitiveness/expansion/employment

1.8.1 *Competitiveness fund.* Grants provided by the DTI on condition of a 50% contribution from the beneficiary firm. The grants are to help firms introduce new technical and marketing expertise.

1.8.2 *Sector partnership fund.* Grants provided by the DTI for up to 65% of costs (for projects up to R1.5 million) incurred by a partnership of five or more manufacturers to introduce programmes designed to improve competitiveness and productivity.

1.8.3 *Medium-term loan financing.* Finance to encourage new industries and the expansion of existing industries, for companies with assets up to R120 million. Administered by the IDC.

1.8.4 *Job scheme.* Low-interest loans to companies which create at least 10 new jobs at R100,000 per job or less. Administered by the IDC.

1.8.5 *Multi-shift scheme.* Low interest finance for projects which add at least one more 8 hour shift and thus greater employment. Administered by the IDC.

1.8.6 *World Player scheme.* Finance for the acquisition and modernisation of fixed assets or expansion. Designed to assist manufacturers who will be potentially hurt by reductions in tariffs on imported goods -- textile, clothing, footwear and motor vehicle component manufacturers. Administered by IDC.

1.8.7 *Rebate provisions.* Rebates on import duties for goods, raw materials and components for manufacturing. These are granted on a case by case basis if it is demonstrated that the import duties impose costs that make the goods uncompetitive in comparison with imported goods. Administered by the Board of Trade and Tariffs and the DTI.

1.8.8 *General tourism scheme and eco-tourism scheme.* Financing available from the IDC for conservation authorities and private game reserves to develop eco-tourism, and for those businesses providing accommodation to tourist to expand or upgrade their facilities.

1.8.9 *Work Place Challenge.* From NEDLAC, assistance to improve cooperation between workers and management in the interests of increased productivity.

1.9 Schemes to support SMMEs

1.9.1 *Small, medium manufacturing development programme.* Programme available for newly-established (after 1 October 1996) local and foreign firms investing less than R3 million in capital and land. Offers a grant for 10,5% of assets, an incentive grant of 25% of profits before tax for one year, an additional two years of the 25%-of-profit bonus if the firm meets a 55% human resource to value-added ratio (see tax holiday), and a foreign investment grant for investment in new machinery and equipment. Administered by the Board for Regional Industrial Development for the DTI.

1.9.2 *Standard Credit Guarantee Scheme and the Emerging Entrepreneur Scheme.* Guarantees on loans to SMMEs (with assets less than R2 million), to encourage finance to be made available to this sector. Normal bank lending criteria applies. Administered by Khula Enterprise Finance Limited.

1.9.3 *Short-term export finance guarantee.* Pre- and post-shipment export finance guarantees to encourage financing of SMME exporters by the banks. Guarantees provided by CGIC.

1.9.4 *Import Finance.* To SMME manufacturers, provides credit and guarantee facilities for importing capital goods and services. Administered by the IDC.

1.9.5 *Normal finance.* For SMMEs in growth phase. Administered by IDC.

1.9.6 *Economic empowerment scheme.* Emerging entrepreneurs from historically

disadvantaged communities are eligible for increased levels of financing than would be provided by traditional financial institutions for establishment or expansion of business. Administered by IDC.

1.9.7 *Venture capital scheme.* Assistance to develop new products or new ventures for SMMEs. Administered by IDC.

1.9.8 *Standard leased factory building scheme.* The IDC leases factory buildings to SMME manufacturers.

1.9.9 *Financing and support programmes for retail finance intermediaries.* Seed loans to establish retail finance intermediaries, finance to provide them with lending capital, and grants to build capacity of these institutions. These intermediaries will be specifically designed to provide finance to SMMEs. Administered by Khula Enterprise Finance Limited.

1.10 Schemes for research and development

1.10.1 *Technology and human resources for industry program.* Financial assistance from government and industry to fund cooperative research efforts of academic/research organisations and private companies. Student training must be incorporated into the project. Administered by the FRD for the DTI.

1.10.2 *Support programme for industrial innovation.* To support technology development of all manufacturing industries, grants for 50% of pre-competitive development costs, up to a maximum of R1 million.

Notes

1... Mastenbroek, R. (1996), "LED: Four Years Later," *Local Economic Development News* #3, August.

2... For other perspectives, see publications of the Centre for Development and Enterprise; Urban Foundation (1994), "Local Economic Development: New Strategies and Practical Policies," Johannesburg; Nel, E.L. (1994), "Local Development Initiatives: A New Development Paradigm for Urban Areas," *Development Southern Africa*, #11; and Rogerson, C.M. (1995), "Local Initiatives for Urban Economic Development: The Case of Johannesburg," Paper delivered at the International Geographical Union Commission on Urban Development and Urban Life conference, Cape Town. Nel (p.71) concedes that "Whilst the free market/entrepreneurial focus of the [mainstream LED] documents are appropriate and the practical guidelines given are relevant, there is a sense that the models proposed have a distinctively western nature, which may only be appropriate in the cities and more developed areas."

D. Adapted from Cashdan, B. (1997), "Local Government and Economic Development: Research for the Local Government White Paper," Unpublished paper, University of the Witwatersrand School of Public and Development Management, Johannesburg, August, p.31.

.. See, e.g., Tomlinson, R. (1994), *Urban Development Planning*, London: Zed; Nel, E. and N. Lindie (1996), "Local Economic Development in South Africa: Recent Developments and Strategies," Paper published by the Friedrich Ebert Stiftung and the South African National Civic Organisation, Johannesburg.

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.. Cited in Klein, S. (1997), "Towards a More Informed Competition Policy for South Africa," Unpublished paper, University of the Witwatersrand Business School, Johannesburg, April, p.18.

". Cited in Bloch, R., R. Dauskardt, and M. Samson (1997), "Spatial Implications of Trade Reform in the South African Economy," Paper for Local Economic Development Research Programme, Department of Constitutional Development, Government of South Africa, Pretoria.

.. Department of Finance (1996), *Growth, Employment and Redistribution: A Macroeconomic Strategy*, Pretoria, 16 June, Section 3.4.

.. *Ibid*, Section 7.1.

.. *Ibid*, Appendix 6.

.. *Ibid*, Appendix 14.

.. Republic of South Africa (1996), *Constitution of the Republic of South Africa, Act 108 of 1996*, Cape Town: Constituent Assembly.

". Constitutional Assembly (1996), *Constitution of the Republic of South Africa*, section 41.1.

.. Republic of South Africa, *Constitution*, section 153.

.. Republic of South Africa, *Constitution*, section 160 and Schedules 4 and 5, Part B.

". Republic of South Africa, *Constitution*, Section 156.4.

.. Republic of South Africa, *Constitution*, Section 9.2.

.. The MEC responsible for planning matters must approve the LDOs *unless*:

- the LDOs do not adequately deal with the subject matter laid down in the Act;
- the LDOs are inconsistent with other objectives or plans established in terms of any other law, in

the opinion of the MEC; or

- the procedures laid down in regulations have not been complied with, in the MEC's opinion.

If a local government body fails to set LDOs, then the MEC may do so instead. The DFA states that the procedures for setting LDOs must be set out in regulations, which in turn must show how the public and interested bodies are to be consulted in the setting of LDOs and how co-ordination of the LDO process with other planning processes will take place.

.. Regarding management, IDPs highlight the integrated development and management of municipal areas. The word "management" implies that the plan must not deal only with spatial and development issues, but also with the manner in which integrated development will take place; in other words, how the process will be managed at a human resource and administrative level. The LDOs, in contrast, deal with management of development as a strategy of development. Section 28 of the DFA states that LDOs must relate to development strategies, including strategies on "available administrative or proposed new administrative structures to deal with land development in the relevant area." Hence while LDOs are not defined expressly as plans that must indicate how municipal areas are to be managed, the DFA read with the regulations do impose on local government bodies a duty to indicate how management of implementing the LDOs will take place.

Regarding financial alignment, IDPs have precedence over financial plans and budgets, according to the LGTA. LDOs, in contrast, must merely show how local authorities intend to access finance for land development. Whereas the LGTA requires that the plans developed be used as framework for the municipal budget, the DFA does not draw the link as directly. Municipalities are not required to align their entire budgets to LDOs or to draw up financial plans in accordance with LDOs. Provinces can attempt to draw together the two requirements.

Regarding monitoring, the LGTA states that municipalities must regularly monitor their performance against their IDP's at regular intervals. In contrast, the DFA does not deal with monitoring.

Regarding community involvement, the LGTA requires municipalities to annually report to and receive comments for their communities regarding the objectives set in the IDP's. In contrast, the DFA does not require LDOs to be subject to community involvement once they are set, but does insist that provincial regulations contain provisions on how communities assist in setting LDOs.

.. Statistics presented here, unless otherwise noted, are from the Central Statistical Service and the Eastern Cape Provincial Government. It should be noted that important statistical differences remain unresolved.

.. The following observations do not cover the ex-homelands, for which no reliable data are available at the sectoral level.

a. * Commerce also includes tourism, wholesale and retail trade, and catering

** Transport also includes storage and communication

*** Finance also includes insurance, real estate and business services

**** Electricity also includes gas and water

n. Doyal, L. and I. Gough (1991), *A Theory of Human Need*, London: Macmillan.

.. According to the World Bank's 1994 *World Development Report: Infrastructure for Development*, [In Kathmandu] based on estimates using narrowly defined project appraisal techniques, [net] benefits from the city's new \$150 million water distribution system... [equalled] \$5.2 million. Using the more detailed service-level approach to project appraisal, however, it was determined that in some cases health benefits from a reduction in coliform contamination of the water approached \$1,000 per unit serviced. An education program that improved water use led to further reductions in health and transport costs. After these indirect benefits were factored in, the project showed a positive net benefit of about \$275 million.

World Bank (1994), *World Development Report 1994: Infrastructure for Development*, Washington, DC, p.82.

.. See van Horen, C. (1994), "Financing and economic implications of household energy policies," Paper 18, South African Energy Policy Research and Training Project, Energy and Development Research Centre, University of Cape Town; (1996a), "Eskom, its finances and the national electrification programme," *Development Southern Africa*, 13, 2; and (1996b), "The cost of power: Externalities in South Africa's energy sector," PhD thesis, School of Economics, University of Cape Town.

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.. These are considered in some detail in Werner, D. and D. Sanders (1997), *Questioning the Solution*, London: Zed Press.

.. Sanders, D. and P. Groenewald (1996), "Public health and infrastructure," Report to the National Institute for Economic Policy, Johannesburg.

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.. *Financial Mail*, 28/4/95.

.. See, e.g., Robinson, J. (1995), *The Power of Apartheid*, Heinemann, London; Schapera, I. (1928), "Economic changes in South African Native Life," *Africa*, 1.

.. Informally and through economic processes, urban class segregation has continued in most countries of the world, especially the United States, and has become so important as to warrant major social scientific studies. According to one of the leading scholars on US inner-city segregation, William Julius Wilson,

The growing concentration of poverty and social isolation of the inner cities has implications not only for the quality of life and patterns of social interaction in impoverished urban neighborhoods, but for the larger urban environment as well... The problem is not simply the fiscal burden created by the sharp deterioration of aggregate family income or the erosion of the municipal tax base caused by the growth in the number of "high-cost" citizens at the very time that large and increasing numbers of higher-income families have abandoned the cities. The deterioration of ghetto-neighborhoods has also sapped the vitality of local businesses and other institutions, and it has led to fewer and shabbier movie theaters, bowling alleys, restaurants, public parks and playgrounds, and other recreational facilities. Residents of inner-city neighborhoods are therefore often compelled to seek leisure activity in other areas of the city, where they come into brief contact with citizens of different racial, ethnic, or class backgrounds... [which] often leads to clashes. (Wilson, W.J. (1992), "Another look at the truly disadvantaged," in *Political Science Quarterly*, 4.)

.. Using a model that deliberately omits possibly significant differences in abilities, tastes, and endowments between people, Benabou sought to prove that neighbourhood effects by themselves, at least partially, shape the labour force, even the existence of unemployed ghettos. The danger Benabou identified is that individuals who invest in high skills benefit more than those pursuing low skills from the presence of high-skill workers in their community, which leads to bidding more for housing in "high-skill communities" and hence to self-segregation. This "net" complementarity among high-skill workers, no matter how small, dominates individual choices, neglecting "gross" spillovers that would otherwise operate between a high-skill group and low-skill group, which in turn reduces the overall social surplus. In short, segregation and stratification drive up the total cost of education, and individuals in the resulting "ghettos" tend to drop out of school. As Benabou puts it, "This condition therefore means that in a community totally deprived of high-skill workers, the return to low-skill education is negative [complementary]. As a result, the exodus of the high-skill group leads [those left behind in segregated areas] to remain unskilled and to drop out of the labor force." The implications are important for social policy. As Benabou argues, When everyone can "walk away" from helping to train low-skill workers, no one will provide that public good. Production would then have to be carried out with high-skill workers only. But this cannot be an equilibrium, even when it is technologically feasible: any agent in a high-skill community would want to switch to low skills, which command a higher wage and have a lower cost. And if some did switch, their high-skill neighbors would secede, driving up the cost of low skills, and so on. (Benabou, R., (1993), "Workings of a city: Location, education and production," in *Quarterly Journal of Economics*.)

.. As Wilson documents in the case of the United States, living in an integrated residential setting increases opportunities to enter the labour market (Wilson, W.J., (1987), *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*, The University of Chicago Press, Chicago). Jobs will locally be more available than in segregated ghettos and there is greater access to job-related information directly from neighbours or door-to-door newspapers. This is claimed to be based on the past experience of workers from the ghetto being "unreliable" because their surroundings are not teaching them the rhythm and discipline of a "normal" working week due to high un- and underemployment. So for the reproduction of society it might indeed be very beneficial to have mixed class-neighbourhoods. Residential segregation has also been cited as a source of employment discrimination by employers (Neckermann, K. and Kirschenmann, J. (1990), "Statistical discrimination and inner-city workers: An investigation of employers' hiring decisions," Paper presented at the annual meeting of the American Sociological Association).

.. SALDRU (1995), "Project for Statistics on Living Standards and Development," South African Labour and Development Research Unit, University of Cape Town, p.4.

- .. SALDRU (1995), "Project for Statistics on Living Standards and Development," p.4.
- .. Palmer, I and R. Eberhard (1994), "Evaluation of water supply to developing urban communities in South Africa: Phase I--Overview," Water Research Commission, Report KV 49/94, Pretoria, p.20.
- .. Department of Constitutional Development (1996), "Project Liquidity Questionnaire 9," Unpublished paper, Pretoria, October.
- .. Mayekiso, M. (1996), *Township Politics*, New York: Monthly Review.
- .. Reasons for this include the fact that long-established suburban residents had long previously paid off capital charges but for black residents these were internalised in contemporary rates and charges because services were more recently installed; the much higher cost of installation of Eskom's (racially-determined) individualised, pre-paid metering points; the fact that Eskom earns interest on the pre-paid funds; and the greater expense of infrastructure provision in peripheral areas of the metropolis where most low-income people reside.
- .. African National Congress (1994), *Reconstruction and Development Programme*, Bellville, Section 2.6.10.
- .. African National Congress, *Reconstruction and Development Programme*, Section 2.7.8.
- .. The approach was even endorsed by the World Bank:
Where a minimum level of consumption of a particular service (such as water, heating, or power) can be identified as a "lifeline" for some users, society may judge that they should not be excluded if they cannot afford to pay.
Adjustments in the general pricing formula can be used to avoid an operational deficit and minimize the tradeoffs imposed by the need to jointly address equity, efficiency, and financial goals. In general, if financial autonomy is a requirement, the public price has to be revised to cover the cost of providing the service plus a markup, often resulting in multipart tariffs and possible cross-subsidies. Two common options to minimize the distortions (to efficiency and equity) of achieving financial autonomy are increasing-block tariffs and time-of-use rate structures. Under an increasing-block tariff, consumption of services (usually water or power) is priced at a low initial rate up to a specified volume or use (block) and at a higher rate per block thereafter. The number of blocks varies from three to as many as ten.
World Bank, *World Development Report 1994*, pp.24,48. For more information, see Ruitenbeek, H.J. (1994), "Infrastructure and the Environment: Lessons and Directions," World Bank background document, unpublished.
- .. Formal sector construction employment includes residential (high and low-income groups), non-residential (commercial, industrial and civic amenities) as well as civil engineering construction (for infrastructure, bulk infrastructure and earth works). The construction industry is defined as those in the industry who are registered with Industrial Council or the Registrar of Companies.
- .. For example, in 1993, formal sector employment generated by low-cost housing construction alone was estimated by National Housing Forum consultants as increasing from 233 000 in 1992 to 400 000 in 2010, and related informal sector employment from 984 000 to 1,7 million. BMI Building Research Strategy Consulting Unit (1993), *National Housing Forum Scenario for the Affordable Housing Market*, Rivonia, p.70.
- ". Department of Finance (1996), *Growth, Employment and Redistribution: A Macroeconomic Strategy*, Pretoria, Appendix 6.3 and section 8.2.
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- .. Daily income for task-based payment systems in the Community-Based Public Works Programme are sometimes R10 or even lower; the remuneration issue is addressed below.
- .. RDP Ministry (1994-95), "Urban Infrastructure Investment Framework," Pretoria, p.72.
- e. The source of this series is the national accounts section of the CSS, divided by the number of employees according to the standardised employment series. In-kind pay and benefits are included.
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- ". African National Congress, *Reconstruction and Development Programme*, Sections 2.3.4, 2.3.9.
- .. International Labour Organisation (1996), *Evaluation of the Community Employment Programme*, Pretoria.