

**ADDRESS BY Ms NE HANGANA, DEPUTY MINISTER FOR PROVINCIAL
AND LOCAL GOVERNMENT, AT THE SOUTH AFRICAN CITIES
NETWORK LOCAL ECONOMIC DEVELOPMENT SYMPOSIUM**

BUFFALO CITY, 3 APRIL 2006

Programme Director,
Distinguished Guests,
Ladies and Gentlemen

It is indeed an honour for me to address you at this Local Economic Development Symposium. I want to assure you that the Department of Provincial and Local Government (**dplg**) is proud to be a partner of the South African Cities Network. I also want to take this opportunity to extend a warm welcome to all of you who have come here, not only from within South Africa, but also outside of our borders, and as far away as the United States of America. I also wish to thank USAID for their funding of this programme and the International City/County Management Association (ICMA), under the City Links Partnership program, who are providing technical assistance to the

South African Cities Network in their quest to develop well functioning cities in South Africa

As you all well know, a Symposium like this is very important to our Government as local economic development is seen as one of the key instruments for achieving a developmental system of local government.

So, one might ask, "What is the South African Government's Development Agenda?"

The Constitution of our country places an enormous responsibility on all the spheres of government for development. Our President, Thabo Mbeki when he said that our interventions must be geared towards "pushing back the frontiers of poverty whilst supporting growth and creating opportunities", has unambiguously and clearly articulated this mandate. He also said, "*expanded service provision*" coupled with "*increased social and economic investments*" must be the priorities for our implementation.

In this respect, my Department has a fundamental responsibility for ensuring the overall functioning of government as a whole towards accelerated and efficient service delivery. In simple terms, this means facilitating and promoting co-ordination amongst National, Provincial and Local Governments. This includes providing the necessary support to the Provincial and Local spheres of government so that they achieve their Constitutional mandate and deliver on the development agenda.

On the development front, I need to highlight the fact that we as the **dplg** and yourselves have resolute objectives to achieve. These are: -

- The eradication of poverty and the empowerment of communities;
- Addressing underdevelopment which is plaguing our society,
- Stabilising the system of intergovernmental relations;
- Building financially viable municipalities;
- Accelerating and improving service delivery and
- Achieving economic development in terms of job creation, investment and growth.

In order to achieve these, a comprehensive programme of support is required and this must place emphasis on the implementation sphere – which is local government. A programme such as this one is a good example of the type of support that needs to be given to local government.

What then is the Economic Development Challenge?

The issue of economic development needs to be understood within a much broader context. Globalisation has been responsible for shaping many facets of the South African economy since the advent of our democracy in 1994.

It has had a number of positive spin-offs for the domestic economy such as: -

- The type of international co-operation we see happening here today
- Opportunities for value-added beneficiation
- The rise of the tourism sector and cultural industries/ arts and crafts;
- Growth in information, communication and telecommunication technologies;
- Spread of entrepreneurship in the local business sector;
- Access to the global export markets; and

- Resurgence of SMMEs and Black Economic Empowerment opportunities.

Whilst the positive impact of globalisation is worth appreciating, the process has, however, simultaneously been responsible for such changes as: -

- Loss of jobs for the unskilled majority of our country;
- Decline of and shedding of jobs by primary industries such as mining and agriculture;
- Industrial decay and flight in mainly mining towns; and
- Jobless economic growth.

For the majority of the South African community, the impact of globalisation has been hard and painful, thus warranting the government to react in a decisive resolute manner.

As government, we therefore do not believe in a trickle down approach to economic growth, neither do we believe that economic growth automatically benefits the poor. We believe that we need to take active steps to ensure that the economic growth experienced in South Africa is shared.

This brings me to the theme of your symposium - Accelerated and Shared Growth in South African Cities: "...From policy to practice..."

As most of you will know, your theme is based on the "Accelerated and Shared Growth Initiative for South Africa (ASGI-SA)" announced at the beginning of the year by our Deputy President. ASGI-SA is one of those decisive and resolute actions that the government of South Africa is taking to address some of the economic problems we are encountering.

South Africa has seen unprecedented growth in the past year. If rumours are true, and once the calculations are done, our economy will show a growth of close to 5%, if not more in the past year. However, although very welcome, this growth is mainly based on the increase in commodity prices and strong domestic consumer demand leading to a stronger currency. In simple terms, gold, platinum, and diamond prices (our major export commodities) have increased and our growing black middle-class is spending a lot more on consumer goods like cars, houses clothing etc. (65,000 new cars were sold in Gauteng alone last year - no wonder I struggle to get to the airport). As any economist will tell you, growth like this is not really sustainable.

ASGI-SA has therefore been developed to mitigate the type of growth I have just described and to address what we believe are the following constraints to economic growth in South Africa:

- **The volatility and level of the currency**
- **The cost, efficiency and capacity of the national logistics system.** For example, the price of moving goods and conveying services over distance in South Africa is higher than it should be.
- **Shortage of suitably skilled labour amplified by the cost effects on labour of apartheid spatial patterns.** Those parts of the legacy of apartheid most difficult to unwind are the deliberately inferior system of education and the irrational patterns of population settlement.
- **Barriers to entry, limits to competition and limited new investment opportunities.** Competition law and industrial policies need to be strengthened to counteract these factors.
- **Regulatory environment and the burden on small and medium businesses.** The mediocre performance of the small, medium and micro

business sector in terms of contribution to GDP and employment partly arises from the sub-optimal regulatory environment.

- **Deficiencies in state organisation, capacity and leadership.**

In developing responses to the constraints, ASGI-SA initiatives are organised into six categories. (I am not going to go into the detail of each of the categories at this time, however the ASGI-SA document can be found on the general government website – www.gov.za). The categories are:

- Macroeconomic issues;
- Infrastructure programmes;
- Sector investment strategies (or industrial strategies);
- Skills and education initiatives,
- Second economy interventions; and
- Public administration issues.

Where then does local economic development find itself in the scheme of things?

As I've mentioned earlier, local economic development is seen as one of the key instruments for achieving a developmental system of local government. Local economic development is also a response to the economic challenges faced by South Africa and is an instrument to fight poverty and joblessness. Most importantly, local economic development is seen as an outcome of a number of actions that would lead to a “developed local economy” benefiting all who live in it. This new way of thinking is quite a radical shift from what was previously considered to be LED - a strictly project based process.

Local economic development can be defined as "the process by which public, business and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all."

Towards this end, the local economic development process aims to achieve: -

- Sustainable employment opportunities;
- Build quality jobs for the local population;
- Achieve local economic stability and
- Diversification of the employment and economic base – revenue generation.

You will be hearing a lot more detail from the **dplg** representative (Alistair) about our LED Guidelines, the LED Framework and its policy thrusts and strategies. However allow me to emphasise just one aspect of what will come out of the LED Framework.

President Mbeki has presented a picture of the First and the Second Economies as a double storey house. On the top floor are the rich, living well. Stuck at the bottom floor, with no stairs to access the top floor, are the majority of South Africans who are poor.

In this scenario, what needs to happen is that staircases need to be built between the ground floor and the top floor. However, at the same time, action needs to be taken on the ground floor to improve the living conditions in that area.

Herein lies the challenge. How do you truly involve the marginalized communities in the economy, so that they also reap the benefits of the economic growth of 6% that we hope to achieve? What actions do we take to ensure that the rising tide of economic growth South Africa is experiencing, lifts all the boats in the harbour and not only the sleek expensive yachts? This is the question I leave with you.

I wish you a very successful gathering. May our common vision and goals guide your deliberations during these two days as you discussed your successes and exchange ideas on the ways to improve the quality of the lives of all our people.

I thank you.