

RETHINKING LED:

“Local Economic Development” in Intermediate Cities



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Research Team

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UFS·UV

ECONOMIC AND
MANAGEMENT SCIENCES
EKONOMIESE EN
BESTUURSWETENSAPPE

CENTRE FOR DEVELOPMENT SUPPORT
SENTRUM VIR ONTWIKKELINGSTEUN

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Photo credits: All photos are credited to the authors.

Suggested citation:

SACN. 2019. *Rethinking LED: “Local Economic Development” in Intermediate Cities*.
Johannesburg: South African Cities Network.
Available online at www.sacities.net

ISBN: 978-0-6399215-6-3

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Foreword

Rethinking Doing “LED” in Intermediate Cities is the latest volume in a series of exploratory studies on the “differentiated approach to governance” focusing on intermediate cities, from the South African Cities Network (SACN). The first four volumes were: a data-driven study seeking to define “secondary cities” (2012); a qualitative study into six intermediate cities exploring possible differences or uniqueness compared to metros (2014); a deeper study into apartheid’s displaced settlements examining the need for a more nuanced articulation of differentiation, drilling down to a sub-municipal level (2016); and a study assessing the interpretation of “spatial transformation” contained in the national urban policy in intermediate cities compared to metros (2017). The series has become an important and consistent reference point for building national attention and understanding about intermediate cities.

This fifth study follows the series’ tradition of responding both to emerging themes from previous studies and to cues from the urban policy environment. Specifically, this report picks up on the observation from the fourth study that more needs to be done to address the inherent economic vulnerability of intermediate cities, including through economic diversification and strengthening municipal capacities. In addition, this fifth study was formulated during a period of dire economic climate, making the economy a focal point for the country.

The cooperation between SACN and the University of the Free State, this time with the added partnership of the South African Local Government Association (SALGA), has continued to generate innovative research questions and methodologies to help explore these issues. For the latest volume, the project continued in the tradition of using case studies, but also focused on an action-research approach, inviting and privileging the experience and perspectives of municipal practitioners and politicians on their role in local economic development (LED).

This research series on intermediate cities continues to contribute to an important knowledge base that supports more targeted and effective urban policy, governance, planning and management interventions. This kind of continuous learning and implementation improvement will be critical to the success of the Integrated Urban Development Framework (IUDF).



Sithole Mbanga
CEO, SA Cities Network



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Acronyms

CBD	Central Business District
COGTA	Ministry of Cooperative Governance and Traditional Affairs
DCOG	Department of Cooperative Governance
DPLG	Department of Provincial and Local Government
ICM	Intermediate City Municipality
ICSP	Intermediate City Support Programme
IDP	Integrated Development Plan
IUDF	Integrated Urban Development Framework
KZN	KwaZulu-Natal
LED	Local Economic Development
OECD	Organisation of Economic and Cooperative Development
PPP	Public-Private Partnership
SACN	South African Cities Network
SALGA	South African Local Government Association
SDF	Spatial Development Framework
SLP	Social and Labour Plans
UNCHS	United Nations Centre for Human Settlements



Executive Summary

Intermediate cities have an important role to play in regional and rural development, and contribute to the national economy. However, their economic growth is generally slower than in metropolitan areas because their economies are more vulnerable. And, unlike metropolitan cities, few (if any) of South Africa's intermediate cities have managed to change their economic trajectory.

This research explored local economic development (LED) within intermediate cities, using a combination of desktop research, participatory action research (to garner the views and experience of municipal practitioners) and case studies of Mangaung, Rustenburg and Sol Plaatje. These three cities represent common LED characteristics of intermediate cities:

- Their economies tend to be “old” and depend on a single sector, and are vulnerable to national decisions.
- They play an important regional role within their rural hinterlands and have links to larger urban areas.
- Their infrastructure is aging, and their municipal financial standing is weak.

The study found that LED is an ambiguous concept that includes both pro-poor and pro-development economic development approaches.

Within municipalities, there is confusion about the LED department's role, and LED is not considered a high priority. As a result, LED departments lack capacity and resources, and produce strategic plans that are rarely updated. These plans tend to be disconnected from reality, lack strong economic rationale or make simplistic assumptions about the economic value chains, and assume that funding will come from other spheres of government. The private sector is also not aligned with the municipality, and economic analysis and intelligence are lacking.

Furthermore, the municipalities depend heavily on national grants but have little or no say in the plans developed and policy decisions taken by national (and provincial) government, although these plans and decisions affect their local economies. The dependency on national grants means that municipalities are not compelled to think about or utilise their infrastructure in economic terms, and it also reduces local accountability.

The Integrated Urban Development Framework (DCOG, 2016) and research by the South African Cities Network (SACN) and the South African Local Government Association (SALGA) recognise that the economic development function at local level needs to be re-imagined. This study recommends that the LED function be re-imagined, based on four principles and six strategic issues.



Four institutional principles for LED

1. A functional economic development directorate can exist on a small budget.
2. A functional economic development directorate needs to be involved in both pro-growth and pro-poor projects.
3. LED needs to occupy centre stage within a municipality and economic thinking must be integrated into the other functions performed by a municipality.
4. A functional economic development directorate should furnish the rest of the municipality with robust economic intelligence.

Six strategic issues in reimagining LED

1. Local governments should **mainstream economic considerations** into their sectoral departments and also into the accompanying strategies of those departments.
2. Local governments need to **use municipal levers**, such as land-use planning, to support their economies.
3. Municipalities should do more to **build economic intelligence**, with the assistance of other spheres of government.
4. Local governments should **strengthen economic strategies** that are appropriate for their specific economic context and based on solid economic intelligence.
5. Local governments should **develop economic partnerships**, as municipalities need to facilitate, not drive, economic development.
6. Local governments should **create appropriate institutional arrangements** that support economic development.

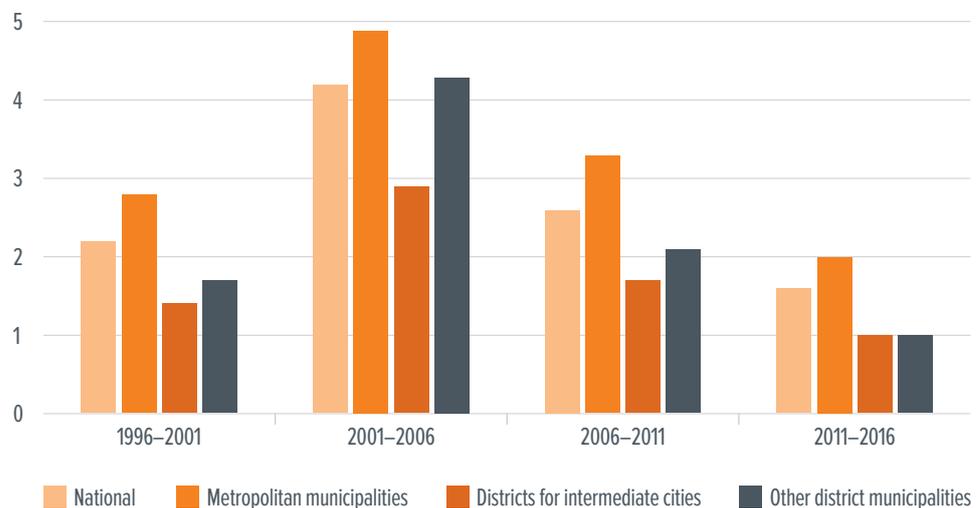
The six strategic issues do not represent a new approach but rather reinforce the main ideas contained in the key policy documents that aim to reposition LED in South Africa. To aid in advancing the practical implementation of these ideas, a diagnostic screening tool was developed through this study that provides municipalities and supporting actors with a framework for assessing a municipality's current LED plan and institutional framework (Annexure A). A municipality can use this framework to get an indicative "health check" on its relative LED strengths and weaknesses, and to use this knowledge as a basis for designing responses for strengthening their LED role.

Introducing a Fifth Study on Differentiation

Intermediate cities contribute to the national economy, help to spread population and economic growth across the country, and have an important role to play in regional and rural development.

For the purpose of this report, the intermediate cities covered comprise the 22 municipalities, as identified by National Treasury. The list has since been extended to 39 intermediate city municipalities (ICMs), as shown in Figure 3, but in the interest of consistency with previous reports, the focus here is on the original list. The 22 municipalities are home to more than 15% of the South African population (Marais et al., 2016a) and the districts in which these cities are located contributed 27% to South Africa's GDP in 2016.¹ As Figure 1 shows, economic growth is often slower in ICMs than in metropolitan areas.

FIGURE 1: Annual economic growth rates of national and selected municipal areas (1996–2016)

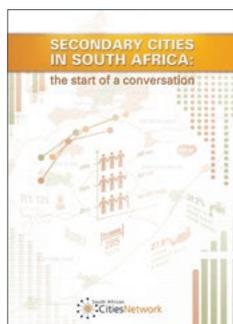


The slower economic growth is due to various realities facing intermediate cities, including their reliance on a single sector (especially mining). This makes them vulnerable to changes in mining and international markets, and to decisions and policies made at national level; for example, the imposition or relaxation of import tariffs. Compounding this reality is the disappointing state of economic planning at local government level, or local economic development (LED). Unlike the larger metropolitan municipalities, very few – if any – of these intermediate cities have been able to change their economic trajectories (Nel & Rogerson, 2007; 2016).

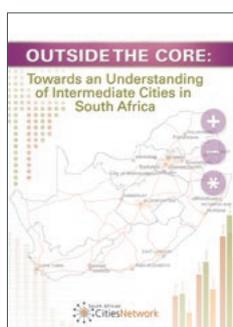
Since 2012, the SACN has been investigating the nature and contribution of smaller cities in South Africa. This series of research activities, which amounts to more than 20 case studies and four publications, informs the analysis of this report and is complemented by an additional phase of participatory action research undertaken in 2018. After providing an overview of the research and policy development, and the “LED” characteristics of intermediate cities, three case studies are presented, followed by the findings of the workshops. The report ends with some reflections and recommendations for reimagining LED within intermediate cities that are applicable for most cities, with perhaps the exception of ICMs located in former homeland areas.

¹ ICMs have large rural hinterlands, and so the economic growth rates used are for the districts in which they are located

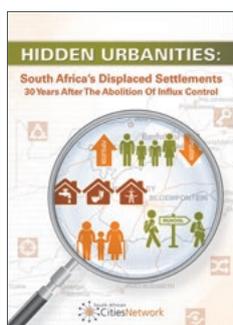
1.1 About the SACN research series on intermediate cities



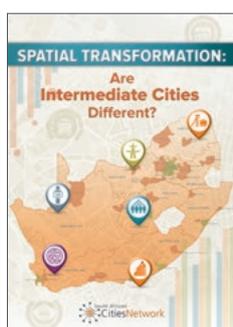
Released in 2012, the first report began the debate on cities that are not classified as metropolitan (or Category A) municipalities but are sizable and play an important role in the country's space economy (SACN, 2012). The research identified 22 potential intermediate (or secondary) cities but did not formally categorise them as ICMs. However, it did inspire further research.



In 2014, the second report summarised the findings of six case studies of the City of Matlosana, eMalahleni, Emfuleni, George, Polokwane and the City of uMhlathuze (SACN, 2014). It also provided guidelines for categorising ICMs. The use of *intermediate* instead of *secondary* represented a shift in the policy environment to emphasise the functional role of these cities rather than their second-tier status.



In 2016, the third report focused on the former township areas that the apartheid state used to channel urbanisation away from core urban areas (SACN, 2016). The case studies included Botshabelo (Mangaung), Mdantsane (Buffalo City), Seshego (Polokwane) and Winterveld (Tshwane). Although the report did not focus directly on ICMs, it did emphasise the importance of adopting a differentiated approach.



In 2017, the fourth report considered spatial transformation in 11 ICMs (Drakenstein, King Sabata Dalindyebo, Lephalale, Matjhabeng, Mbombela, Mahikeng, Msunduzi, Polokwane, Rustenburg, Sol Plaatje and Stellenbosch). It looked at the reality of economic vulnerability in spatial planning; the dominant roles of interest groups and power dynamics; poor planning, governance and finance capacity; and high dependence on mining (SACN, 2017).



This related research study (SACN and SALGA, 2017) examined how four municipalities in KwaZulu-Natal (KZN) – eThekweni Metropolitan Municipality, uMhlathuze Municipality, Newcastle Municipality and uMgungundlovu District Municipality – have understood and institutionalised the LED function through analysing their organisational structures. The four municipalities were selected for their variation in size, population and role within the broader provincial spatial economy.

Value of the participatory action research methodology

The use of more inclusive approaches to knowledge building is being increasingly recognised, and so this study experimented with a participatory approach in order to build an understanding of institutional dynamics and policy approaches. Participants and researchers worked together to understand the issues, and participants appreciated the value of peer learning and being part of a process to reimagine the LED function at municipal level.

Following the workshop, the Rustenburg Municipality embarked on a process of revising their economic development strategy in view of the questions asked about the economic logic of many of these plans and projects. Mangaung is also in the process of developing a new strategy, which will benefit from ideas generated at the workshops.

1.2 Methodology: participatory action research.

Four municipalities – Matjhabeng, Mangaung, Rustenburg and Sol Plaatje – were invited to contribute over three days. Two of these municipalities play a substantial regional functional role, while the other two municipalities have historically depended on mining. Although Matjhabeng decided not to participate, reference will be made to this city in discussions about Rustenburg because there are important parallels. The project included Mangaung as a current Category A municipality because it is a smaller metropolitan area that serves a large rural hinterland.

- Day 1: Each municipality spoke for 45 minutes about their current situations, their strategies and their problems relating to economic development, and then answered questions.
- Day 2: the University of Johannesburg gave a presentation on the international and national aspects of economic growth at the local level, which provided a platform for discussion. The research team gave a presentation on “re-imagining” LED at the municipal level, to test alternative solutions to the current problems regarding economic planning in the local government sphere and to deepen the discussion.
- Day 3: Three weeks later, a full-day workshop was held that comprised two sessions. In the first session, Rustenburg gave feedback on a workshop held with the Rustenburg Chamber of Commerce to discuss the future of the city in the event of more mines closing, while the second session focused on more refined proposals regarding the future of the LED function within municipalities.

Framing Local Economic Development

2

After discussing the history of LED in South Africa, current and future government thinking on LED and the international context, this section examines LED within intermediate cities in South Africa.

2.1 South Africa and LED

The history of LED in South Africa can be divided into six phases, as described in Table 1.

TABLE 1: The six phases of LED

<p>PRE-1994 (apartheid era)</p>	<ul style="list-style-type: none"> ■ The approach was government-planned industrial decentralisation and LED initiatives, as part of the social engineering and economic boosterism of the apartheid state (Rogerson, 1997; Nel & John, 2006). ■ From the 1980s, programmes were introduced to attract industries, promote place marketing, and develop infrastructure, tourism and land. However, by the early 1990s, many of the decentralised, planned places (e.g. Botshabelo, Mdantsane) were failing, with plants closing and jobs being lost (Marais et al., 2016c; SACN, 2016).
<p>1994–2002</p>	<ul style="list-style-type: none"> ■ The new Constitution (1996) came into force and included the principle of developmental local government, reinforcing the importance of economic planning at the local level. ■ Two opposing approaches to LED developed: a city-based (or pro-market) approach and a community-based approach (Nel, 1997). As donors started channelling their funding through government, the community-based approach lost momentum (Nel, 2005). Community groups argued in favour of pro-poor approach to LED (Khanya-acidd, 2006). ■ Government introduced the LED Fund (1998) that was aimed at projects with a pro-poor, poverty-relief focus. Projects had limited success because they were poorly planned and designed, seldom considered the value chains, were mostly implemented by the public sector and often did not include appropriate technical support (Marais & Botes, 2007). ■ Some of the large cities implemented inner-city renewal programmes and large tourism investments, such as waterfront developments and convention centres, which were in many cases driven by public-private partnerships (Nel & Rogerson, 2007).
<p>2003–2011</p>	<ul style="list-style-type: none"> ■ Having discontinued the LED Fund (2002), government developed a new LED policy for South Africa, the National LED Framework 2006–2011 (DPLG, 2006), which was: <ul style="list-style-type: none"> ■ A five-year strategic framework aimed at supporting the development of sustainable local economies through integrated government action. ■ A guide to LED that proposed a strategic implementation approach that government and communities could use to improve LED, and suggested actions for implementing LED Key Performance Indicators.

POST 2011	<ul style="list-style-type: none"> ■ A review of the 2006–2011 LED Framework took into consideration the state of the economy and of local government, the existing national economic frameworks and national contemporary LED issues, and identified LED challenges and opportunities. ■ Challenges included: the lack of a shared conceptual understanding of LED, poor intergovernmental relations on LED, sectoral plans not integrated as part of LED planning and implementation, limited funding and financing for municipal-led LED programmes, the lack of a differential approach to LED implementation, and skills deficit and general human resources issues.
2016	<ul style="list-style-type: none"> ■ Cabinet adopted South Africa’s national urban policy, the IUDF, which promotes a differentiated approach to cities and towns. ■ The IUDF recognises the specific problems associated with intermediate cities in South Africa, including dependence on a single economic sector, poor urban management, inadequate maintenance of municipal infrastructure, and weak relations between the municipality and external role-players. ■ The IUDF specifically calls for a national LED strategy and for economic development to be central to the municipal agenda.
2018	<ul style="list-style-type: none"> ■ The Ministry of Cooperative Governance and Traditional Affairs (COGTA) published a draft National Framework for Local Economic Development: Creating Innovation-driven Local Economies 2018–2028 (COGTA, 2018) that takes forward the policy proclamations. ■ Its aim is to “provide strategic guidance to LED agents and actors and their activities in order to achieve innovative, competitive, sustainable, inclusive local economies that maximise local opportunities, address local needs, and contribute to national and provincial development objectives”.

2.2 Current and future government thinking around LED

The draft National Framework for Local Economic Development and the Intermediate City Support Programme (ICSP) are the most recent responses from government.

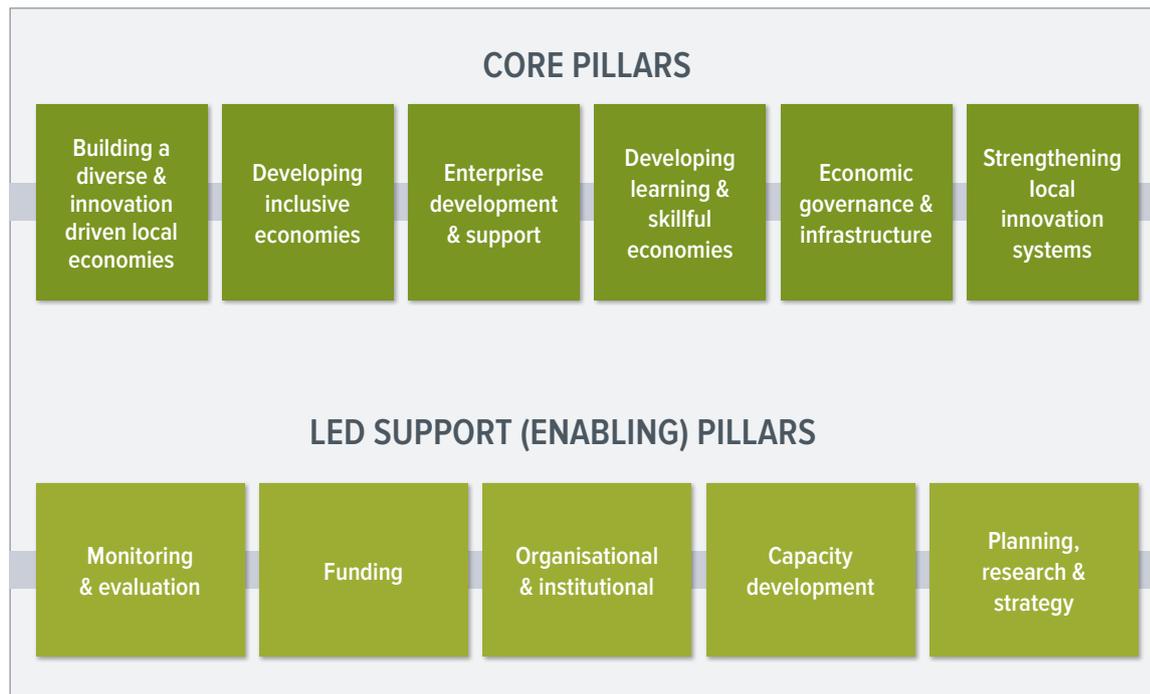
The draft National Framework for Local Economic Development

The draft Framework contains a vision for LED: “Innovative, competitive, sustainable, inclusive local economies that maximise local opportunities, address local needs, and contribute to national development objectives”, including the following strategic objectives:

- To launch a radical fight against poverty, inequality and unemployment, and enhance the quality of life for all through developing innovative and inclusive and competitive local economies.
- To support the potential of local economies to grow and develop the national economy.
- To raise greater awareness of the significance of regions, metropolitan municipalities and localities as focal points for generating national prosperity.
- To intensify the support for local economies to realise and build their economic potential, diversity, levels of employment and the creation of decent work for their communities.
- To strengthen intergovernmental coordination for the planning of inclusive economic development between government and non-governmental sectors.

The draft National Framework is built on six core pillars and five enabling pillars that drive the implementation of the core pillars.

FIGURE 2: Draft National Framework for Local Economic Development (2018)



Despite some pockets of excellence, much work lies ahead, especially given the institutional shortcomings revealed through a review of the 2006–2011 framework:

- The lack of a shared conceptual understanding of what LED is.
- A lack of integration of sectoral plans as part of LED planning and implementation.
- Limited funding and financing for municipal LED programmes.
- The lack of a differentiated approach as regards LED implementation.
- The project approach to developing local economies.
- A skills deficit and general human resource challenges.

The draft National Framework acknowledges that municipalities allocate insufficient funding to LED activities, do not see the value of improved local economies in relation to their municipal income, and have not fully recognised the potential role of science and technology in promoting LED. It contains several proposals, including:

- The reintroduction of LED finance through some supporting systems: the Technical Assistance Fund (to improve the quality of LED plans and support knowledge creation around LED), a growth fund (to support the funding of catalytic projects) and a business-enabling fund.
- A more prominent role for district municipalities in respect of LED.

Intermediate City Support Programme

Much of the research cited above laid a foundation for the ongoing development of the ICSP by the Ministry of Cooperative Governance and Traditional Affairs (COGTA). The relative underperformance of the economies of the intermediate-city municipalities in question (when compared with metropolitan municipalities) provides adequate justification for the programme, which is aimed at providing municipalities with more flexibility and at facilitating long-term planning.

The process of developing the programme initiated a new discussion on the definition of intermediate cities. The programme first adopted a list of 21 B1 municipalities determined by National Treasury, but the list later expanded to 33. This extension was premised on size (e.g. population size) and the assumption that existing measures incorrectly calculate economic size in South Africa. Previous research has shown that in defining ICMs, it is important to understand both the function and the interrelationship between function, size and location. Size characteristics were also the main justification for expanding the number of cities categorised as Category A (metropolitan).

FIGURE 3: List of 39 ICMs according to the IUDF

39 ICMs				
LARGE SEMI-DIVERSIFIED	MINING	MANUFACTURING	SERVICE CENTRE	LOW GVA/HIGH POP/HIGH DENSITY
Emfuleni	Rustenburg	Mogale City	Matlosana	Bushbuckridge
Msunduzi	Matjhabeng	Newcastle	Maluti a Phofung	Makhado
Mbombela	Emalahleni	Govan Mbeki	Nkomazi	Greater Tzaneen
Polokwane	Madibeng	uMhlathuze	Thulamela	Mafikeng
	Rand West	Drakenstein	Sol Plaatjie	Enoch Mgijima
	Steve Tshwete	KwaDukuza	Mogalakwena	King Sabata
	Merafong	Alfred Duma	Ventersdorp/Tlokwe	
	Gr Tubatse/Fetakgomo	Metsimaholo	George	
	Ba-Phalaborwa	Stellenbosch	Gr Giyani	
	Lephalale		Ray Nkonyeni	

As limited additional funds are available, existing funding streams will be restructured for the programme. However, the developing ICSP will require interventions that go beyond merely realigning the funding mechanism, as the ICSP will have to bring together aspects that include the economic importance of these cities, their functional roles, their vulnerabilities, as well as the need to stabilise municipal finances and to strengthen municipal governance.

2.3 International “LED” thinking

The role of “place” and elements unique to a particular context – social, economic, political, resources, infrastructure – has long been recognised as critical in shaping the development “path” of any given local place (Harvey, 2014). In the North, countries have tended to adopt “place-neutral” and “spatial neutral” approaches, which leave development opportunities exposed to the vagaries of market forces. However, *place-based approaches* and the notion of *spatial targeting of support* have become much more widely accepted. Both themes have a critical bearing on how intermediate cities and their role are understood, and on the parallel recognition of the need for targeted support strategies. The OECD and others have recognised that “lagging places” (i.e. places, cities and regions secondary to the mainstream) have a valuable role to play in national development.

Shift to “place-based” thinking

The challenges of intractable development backlogs and the failure of comprehensive programmes, such as the EU’s Regional Development Fund, to reduce regional disparities have resulted in a significant rethink of how to implement development interventions. These challenges have also led to calls to move from spatially neutral to place-based interventions in order to address unique challenges and to capitalise on unique local advantages. Place-based strategies have particular relevance for intermediate cities that struggle to compete with larger cities and rarely receive targeted support from national institutions.

The place-based approach assumes that geographical context really matters, whereby context here is understood in terms of its social, cultural, and institutional characteristics” and that in terms of interventions, support needs to focus on “issues of knowledge and policy intervention (Barca et al., 2012: 139).

The anchors for this policy shift include the *Barca Report to the European Commission* (Barca et al., 2012) and the two OECD reports: *How Regions Grow* and *Regions Matter* (OECD, 2009a; 2009b). The Barca Report argues for place-based policies, as the most effective way to tackle persistent poverty and the underutilisation of resources, while the OECD reports argues that all regions and places have growth potential and require uniquely targeted interventions to mobilise local assets and draw on local synergies.

National support

Intermediate-city development cannot be viewed in isolation and requires national support. The first step is to have a clearly defined national urban policy that supports intermediate cities in legal, policy, financial and governance terms. City development also requires national government to devolve responsibilities, as well as sufficient resources and funds to function effectively (Parkinson et al., 2015). However, globally, intermediate cities struggle because of the absence of supporting national strategies. And even when such strategies do exist, the support is often inadequate, and only limited power and resources are devolved. Most national policies are also biased in favour of larger centres and seldom involve smaller centres, which often have a narrow economic base that makes diversified and sustained growth difficult; in addition, resource and capacity constraints affect local policy choice, visioning and governance (UNCHS, 1984; Hardoy & Satterthwaite, 1986; Otiso, 2005; Marais et al., 2016a).

The Cities Alliance argues for clearer and more defined support for intermediate cities (Roberts, 2014) because these cities are the fastest-growing cohort in the urban hierarchy, play a key role in national economic and rural development, and yet are struggling to attain their potential as a result of poverty, lack of policy support and guidance, and inadequate resources, among others.

What does appear to be critical is to acknowledge the fact that the cities’ networked governance groups have a right to self-determination when designing locally appropriate strategies: “There is no single path to economic success [...] smaller cities have followed dramatically individual approaches to enhancing their economic competitiveness and vitality” (Kresl & Ietri, 2016: 128).

Regional (or local) development agencies

Such agencies are routinely used to implement economic development in intermediate cities. The agencies collaborate and engage with key partners, oversee strategy choice and implementation, and serve the needs of key role players and communities. Although a local authority could fulfil these activities, independent agencies that act on behalf of local councils generally enjoy greater support from a wider range of stakeholders, as they are considered more politically neutral and able to operate with greater legal and policy flexibility.

A development agency is a “publically financed institution outside the mainstream of central and local government administration designed to promote indigenous economic development through the integrated use of predominantly soft policy instruments” (Halkier, n.d.: 3). Development agencies develop local solutions to local issues using local people – “they build partnerships to develop strategies and deliver sustainable infrastructure and services to their regions”.² While many agencies were initially set up in response to a defined economic crisis, increasingly they are being set up to promote, develop and network their cities and regions (Mountford, 2009).

The OECD identified the following key roles for agencies: to build markets (economic); to provide leadership, governance and coordination; and to ensure implementation. Common tasks include (Mountford, 2009):

- To foster coalitions, promote coordination and leadership, and provide support for monitoring, advocacy and planning (strategic role).
- To provide for land and property development, and to undertake lending and investment, and manage grants (asset and investment roles).
- To promote technology and innovation, skills development, employment creation and job brokerage, and to foster entrepreneurship and SMEs (innovation, enterprise, skills and employment roles).
- To facilitate investment and to undertake project management (promotional role)
- To play a leading role in the sector and cluster development and capacity-building endeavours (capacity-building role).

The Regional Development Australia (<https://rda.gov.au/>) lists the following tasks and roles:

- To consult and engage with communities.
- To promote regional programmes.
- To provide information to all levels of government.
- To support informed regional planning.
- To develop regional plans that outline regional priorities.

Yet regional development agencies are not without their problems. These include: a lack of clarity over the respected roles and responsibilities of the development agency and the municipal actors, a lack of executive power, disagreement among members, interregional rivalry and the lack of a regional focus.

Local is lekker

There is no single recipe for success in developing the economies of intermediate cities. What is important is to understand contextual variables, such as national and local policy, resource and skills endowments, economic heritage, connectivity and market opportunities (both global and regional). At the same time, where appropriate, intermediate cities need to embrace policies that encourage regional economic connections and global links, attract new economic activities, and continue to support more established, traditional economic activity and human capital development (Norman, 2013).

For smaller urban centres, economic development is often constrained by their relatively small size, their narrow economic bases, a lack of distinctiveness and their path dependency (this refers to the tendency to continue along a set path, based on past practices, rather than to explore better alternatives). Nevertheless, smaller centres also have some advantages, such as high local connectivity and identity, efficiencies resulting from operating at a manageable scale and a defined economic heritage on which to draw. Some places also have unique cultural, recreational and tertiary education assets, which stabilise the local economic base, draw on social capital and support innovative development (Kresl & Ietri, 2016).

² <https://rda.gov.au/>

Smaller cities need to embrace the new “urban competitiveness” that exists in an increasingly interconnected world and to realise that “success is linked with being proactive and future orientated and accepting of changes and assumption of risk” (ibid: 26).

The European experience shows that the development process needs to be locally led and to embrace all local role players (business, the community, social groups and government). The experience of intermediate cities in Spain, Ireland, France, Poland and Germany identified some key determinants of strategic thinking in intermediate cities (ibid: 96):

- Reaching agreement on common goals and philosophies.
- Creating a network of supporting agencies and intermediate actors in public-private partnerships (PPPs).
- Fostering inward investment.

Strategic approaches followed by intermediate cities

From the literature, some common, global strategic approaches followed by intermediate cities were identified. These approaches are not unique to intermediate cities and are often also used by larger cities.

- **Smart growth and place-making.** The concept of smart growth implies investments in human and social assets that promote sustainable economic growth, human and social capital development, high quality of life and environmental sustainability (Panagopoulos & Barreira, 2012). Specific strategies designed to enhance the quality of life and, by implication, encourage both endogenous development and the attraction of new in-migrants include promoting compact and mixed land use, encouraging community development and a sense of place, strengthening local development capacity, and preserving open space. The key argument for place-making is that talented people are essential for growing a local economy, and so strategies that attract new talent or develop local talent are critical. Therefore, an enhanced quality of life and amenity value are crucial for improving the perception and attraction of a place (Kelly, 2012).
- **Smart specialisation.** Smart specialisation seeks to synthesise three development priorities: pursuing growth that is smart, sustainable and inclusive. EU support for research and innovation ties place-based support and strategies to local innovation and entrepreneurial endeavour (Gheotghiu et al., 2016). Investments focus on unique and targeted interventions to support and develop local entrepreneurial capacity. The process is anchored on local advantage, local skill, capacity and innovation, the potential for local spinoffs and growth (Rusu, 2013), as well as the belief that finding and supporting the growth of innovative entrepreneurial activities will catalyse structural change and develop new capabilities (Radosevic, 2017).
- **Promotion of innovation.** Related to the preceding point is the acknowledged importance of encouraging “innovation ecosystems” that enable structural economic transformation from traditional to new/IT-based economic activities. Evidence from Finland, and in particular the centre of Tampere, is instructive in this regard. Developing an “innovation ecosystem” calls for the following (Kostianen & Sotaraku, 2003; Oksanen & Hautamaki, 2014):
 - The development of technical university capacity and research linkages that both allow for and encourage technology transfer.
 - The establishment of links between university/industry/government.
 - Local control and a future-directed orientation.
 - Institutional development to support transformation and new path development.
- **Rural development.** In the context of a developing country, intermediate cities have a ongoing role to play regarding the service and economic functions relative to their rural hinterlands.
- **Pipeline versus cluster development.** Analysts increasingly warn against too much inward thinking. The alternative for intermediate cities is to build links (pipelines) to the global economy.

However, none of these approaches will work without the appropriate institutional arrangements.

2.4 “LED” characteristics of intermediate cities

A definition of intermediate cities should take into account not only size (population, economy, density, municipal budget), but also function and location (Van der Merwe, 1992). While indicators of size are easily quantifiable and thus comparable, the criteria for function and location are often open to various interpretations. For instance, some cities may not fully comply with the size criterion, but their central location within a specific region or subregion makes it possible to classify them as intermediate, as in the case of many border towns. Nevertheless, ICMs in South Africa share some common factors.

Economies often dependent on a single sector

Single sectors often dominate the economies of intermediate cities and are linked to the global economy, especially mining (e.g. Matlosana, Lephalale, Matjhabeng, Rustenburg and Sol Plaatje) and manufacturing (e.g. Emfuleni, the uMhlathuze). They sometimes involve tourism activities (e.g. George, Polokwane, Mbombela) or trade (e.g. Polokwane, Mbombela). Such mono-economic links render these places more vulnerable to global economic crises than metropolitan areas, which generally have multiple global links. For example, Rustenburg’s economy is dependent on the international price of platinum, which is beyond a municipality’s control.

Workshop respondents also highlighted the perceived “problems” of foreign-owned enterprises that are viewed “as killing our economy”, evading taxes, providing products of poor quality, and being guilty of the misappropriation of business spaces and dubious lease arrangements with landlords.

“Old” economies

These cities have economies that are “old” (Marais et al., 2016a), such as mining and specifically coal mining in eMalahleni and Lephalale (Campbell et al., 2016) and the iron-and-steel industry in Emfuleni and Newcastle (Marais et al., 2016b). This makes addressing the spatial and economic inequalities more difficult (SDF). South Africa is one of the most unequal countries in the world, with “inequalities in earnings between black and white, and inequalities in terms of white noble suburbia where you have middle-income groups and the tucked-away townships” (workshop participant). In the past, during times of high economic growth and before the economies became “old”, large-scale expansion (“sprawl”) occurred. However, once decline sets in, cities find it difficult to adjust and maintain their infrastructure. A good example is Matjhabeng, which was originally planned as a garden city within the apartheid ideology of fragmentation and separation. This created sprawl. Once decline set in, the municipality found it difficult to adjust: its rates base came under pressure, and infrastructure maintenance exceeded municipal income (Marais, 2013; Marais and Nel, 2016).

Economies vulnerable to national decisions

Intermediate cities are vulnerable to policy and programme decisions taken by national government. These policies are often designed (with good reason) for large metropolitan areas but do not consider the implications of policy changes on intermediate cities. In addition, smaller intermediate cities find it more difficult to diversify their economies. Examples include:

- The expansion of the Durban Harbour and the slow process of expanding Richards Bay Harbour and the rail link with Mpumalanga to serve more than just coal exports demonstrate the powerful role played by metros (Wessels and Rani, 2016).
- A Transnet decision not to transport steel by rail between Gauteng and Durban adversely affected steel exports by rendering them uncompetitive.
- In the 1990s, the decision by national government to open up South African markets had a negative impact on the textile industry in Mangaung, an important subsector of the manufacturing sector.
- When Transnet decided to outsource the manufacture of rolling stock to foreign countries, Mangaung (which had a long history of and proven capability in manufacturing rolling stock) lost local capabilities.

Breaking these historical pathways has proven difficult for intermediate cities. Despite many attempts, Emfuleni (the iron and steel mecca of South Africa) has not been able to expand its economy to include engineering services, an industry that historically developed on the East Rand (Ekurhuleni). Similarly, Matjhabeng has not been able to diversify its economy and remains dependent on mining.

Important regional role within their rural hinterlands

Intermediate cities often act as regional services centres, providing services that stretch beyond their demarcated boundaries to the rural hinterlands. In many instances, rural linkages include the provision of services within a regional context. For example, private boarding schools, regional offices of banks and insurance companies, private and public hospitals in City of Matlosana, eMalahleni, Emfuleni, George and uMhlathuze (Marais et al., 2016a).

“Our medical fraternity does draw people from the Eastern Cape, from the mining areas in the Northern Cape, from Kuruman and [as] far as Springbok.” (Mangaung official)

Large shopping centres also serve a regional function and are often located outside the original central business districts (CBDs) to attract and accommodate this wider regional demand, for example George, Emfuleni and the City of Matlosana. Other assets include sports facilities, educational facilities (schools and universities) and game farming.

“Farmers are bringing their fresh produce to the market from all over the country” to sell to “clients from the Free State and Lesotho.” (Mangaung official)

Links with the larger urban areas

The term *intermediate* refers to their role of mediating between rural hinterlands (including small towns) and the main urban areas in a country. These linkages with large cities are regularly established through the delivery of financial services. Large financial-service businesses often locate their regional offices in intermediate cities and in many cases allow their regional offices to make decentralised decisions.

Aging infrastructure and poor municipal finances

Generally, intermediate cities have managed urbanisation and provided adequate infrastructure in line with the growth of their populations and similar to progress in metropolitan areas (Marais & Cloete, 2017). The levels of service delivery are sufficient to support economic development (SACN & SALGA, 2017). However, although the levels of access to services are relatively high, the quality of services in intermediate cities is poor. Major problems are an ageing municipal infrastructure and the inability of many municipalities to maintain this infrastructure. Research in Emfuleni has indicated that some businesses stock spare parts to deal with the maintenance of the electricity network (Marais et al., 2016b). In eMalahleni, mining companies purify water and sell it to the municipality (Campbell et al., 2016). The decline of the dominant economic sector, combined with the general state of the national economy, affects municipal finances, making intermediate cities vulnerable to proposals from private developers that are not aligned to the municipal spatial development framework (SDF).

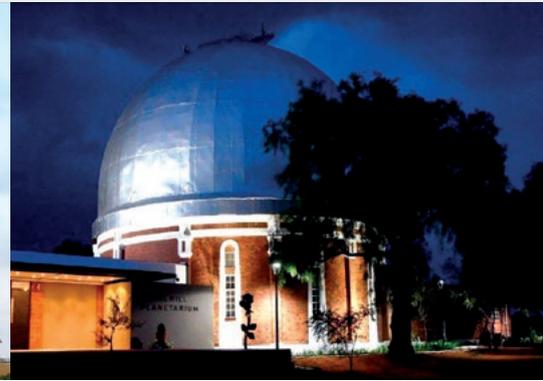
“South Africa is one of the most unequal countries in the world, with “inequalities in earnings between black and white, and inequalities in terms of white noble suburbia where you have middle-income groups and the tucked-away townships” (workshop participant).



3

Three Municipal LED Case Studies

Three cities, Mangaung, Sol Plaatje and Rustenburg, participated in the workshop. The fourth city, Matjhabeng, was unable to participate, but some comparison to this city is included in the Rustenburg profile.



MANGAUNG

Mangaung, is a Category A or metropolitan municipality, and its main urban centre is Bloemfontein. It has a population of 800 000 and an average population growth of 1.5% per year (1996–2016).

1848

Bloemfontein is established as a trading post.

1910

Bloemfontein becomes capital of the Orange Free State Province (from 1994, the Free State Province).

1948–1994

Bloemfontein is the judicial capital of South Africa and seat of the Supreme Court of Appeal.

1968: black people moved to Thaba Nchu.

1978: all Sesotho-speaking people moved to Botshabelo, and all Setswana people moved to Thaba Nchu.

2001

Bloemfontein, Botshabelo and Thaba Nchu amalgamated to form Mangaung Local Municipality.

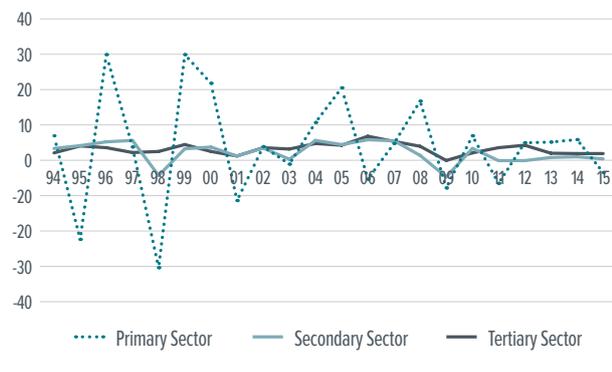


Main economic function

Today, Mangaung continues to focus on trade and government. As the main urban centre in the Free State and central South Africa, the city has expanded its regional services function across the province, into neighbouring provinces and even into Lesotho. It is home to higher-order trading spaces, an airport, two universities and a Further Education and Training college, numerous boarding schools, some private and public hospitals, and the regional offices of financial institutions. International economic links are limited, but national economic links include the Supreme Court of Appeal, numerous sports teams that represent the city, quality sports infrastructure and a small manufacturing industry.

The economy

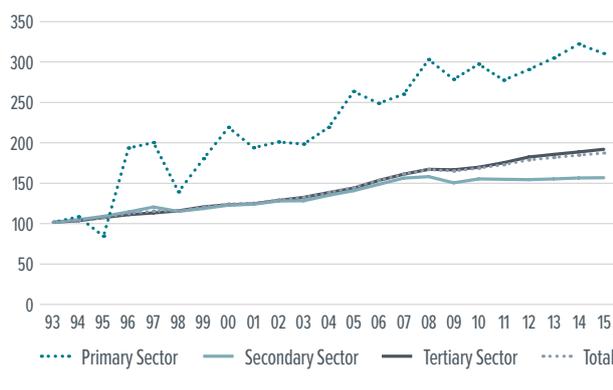
FIGURE 4: Annual economic growth per sector (1994–2015)



Between 1993 and 2008, Mangaung’s economy grew by an average of 3.4% per year. However, between 2008 and 2015, the growth rate dropped to an average of 1.7% per year. During the same period, Bloemfontein (the economic core of the municipality) saw its economy grow by 2.3% per year.

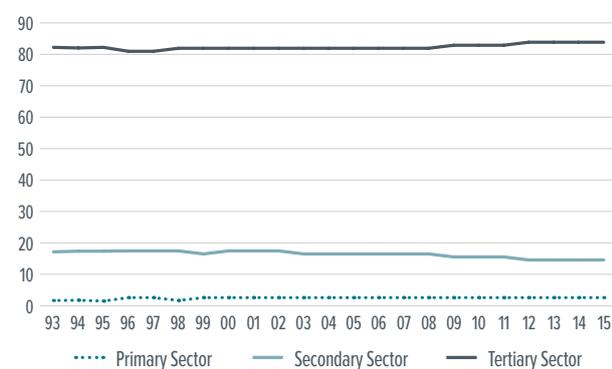
The primary sector (mainly agriculture) remains small (less than 2%) and extremely volatile, but has expanded during the period under consideration.

FIGURE 5: Economic growth (1993–2015) – 1993 = 100%



The secondary sector’s contribution to the economy has declined, from 18% of the economy in 1997 to 14% in 2015. This decline is the result of losing a large portion of the textile industry due to lower import tariffs on textiles and the phasing out of the decentralisation subsidies of the apartheid government. The manufacturing industry mainly serves local and regional markets.

FIGURE 6: Percentage share of primary, secondary and tertiary sectors (1993–2015)



The tertiary sector contributes over 80% of the local economy – reaching nearly 85% in 2015. The expanding regional services function is largely responsible for the growth in the tertiary sector.

Economic development planning

The current Economic Development Directorate is small, and the economic strategy dates from more than 15 years ago. There is very little integration of economic thinking into the other municipal functions. The city has invested heavily in the creation of industrial stands near the airport and mixed land-use development on the Kimberley road to the west of the city.



RUSTENBURG

Originally a regional services town providing services to the surrounding agricultural communities, Rustenburg is the heart of platinum mining. It has a population of well over 600 000 and an average population growth of 3.6% per year (1996–2016).

1930s

Platinum is discovered.

1960s

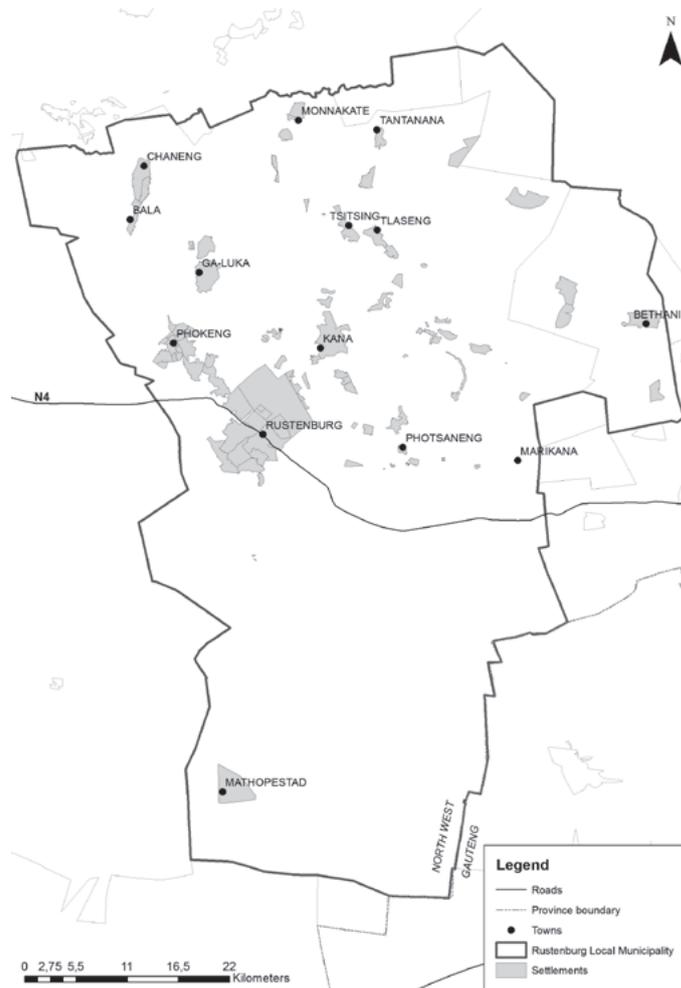
Relatively large-scale mining operations begin.

1990s

Big mining boom after European countries and the USA commit to reducing CO₂ emissions from vehicles, which created a huge market for catalytic converters made from platinum. Previously, platinum had mostly been used for commercial jewellery and the construction industry. Platinum became the new gold.

2012/
2013

Marikana massacre and strike by miners



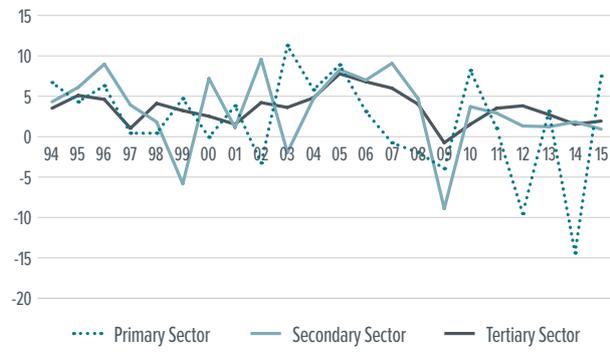
Main economic function

Rustenburg is the heart of the platinum industry in South Africa. However, the future of the platinum mines is uncertain: globally, there is an oversupply of platinum, as demand is dropping with the move to electric vehicles that do not need catalytic converters. In addition, the new open-cast mines that depend on technology and mechanisation are not being developed in Rustenburg, while most of the mining companies have not made profits in the past five years. The Royal Bafokeng Nation has a substantial shareholding in many of the platinum mines, as it owns much of the land, which was originally bought by the Bafokeng from the Zuid-Afrikaanse Republiek, disposed of under apartheid and then the title restored post-democracy.

To some extent, Rustenburg is where Matjhabeng was at the beginning of the 1990s. Although to date layoffs have been limited, job losses are inevitable. The first layoffs have already taken place, and other mines have made restructuring announcements. However, Rustenburg has one advantage over Matjhabeng: it is located on the fringes of Gauteng, and the links with Gauteng could well cushion the impacts of mine decline.

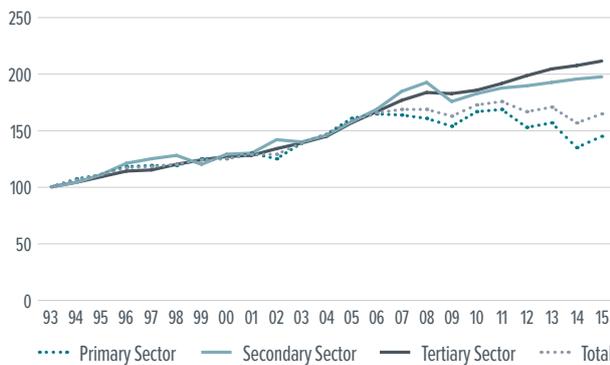
The economy

FIGURE 7: Annual economic growth per sector (1994–2015)



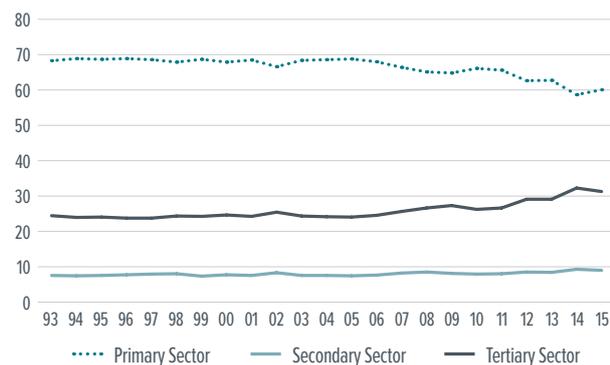
Between 1993 and 2011, Rustenburg had one of the fast-growing economies in South Africa, growing at 3.3% per year between 1993 and 2001 and 3.1% per year between 2001 and 2011. However, since 2011 the economy has declined by 1.6% per year, lowering the average annual economic growth to 2.3% between 1993 and 2015.

FIGURE 8: Economic growth (1993–2015), 1993 = 100%



Economic growth in the primary sector has been volatile and has grown slower since 2007, declining sharply since 2011. Almost 60% of the Rustenburg economy is still dependent on the primary sector (mainly mining).

FIGURE 9: Percentage share of primary, secondary and tertiary sectors (1993–2015)



The tertiary and secondary sectors have continued to grow, although the secondary sector has not managed to increase its share of the economy. In 2008, manufacturing, especially the vehicle industry, was hard hit by the financial crisis and has not returned the pre-2008 levels of economic output. Manufacturing's share of the secondary sector declined from 63% in 1993 to 55% in 2015. In contrast, construction grew from 17% to 29% over the same period.

The tertiary sector remains small compared to intermediate cities with more diverse economies. However, its share of the economy is increasing slowly, as the share of the primary sector is declining

Economic development planning

Rustenburg Municipality has an understaffed Economic Development Directorate and a plan, the Rustenburg Master Plan, that was launched in 2006 by the Royal Bafokeng Nation and the Rustenburg Municipality. The plan seeks to ensure the survival of Rustenburg beyond platinum mining and comprises catalytic projects aimed at building a post-mining economy. Projects include expanding and structuring commercial centres, setting up small enterprises and developing local industries, developing a medical centre, developing new tourism clusters and supporting existing attractions, promoting new types of agriculture to meet local demands, creating a new city-scale icon and destination in Rustenburg, and rejuvenating the CBD. However, the plan is largely inappropriate, as it does not imagine a decline in economic growth.



SOL PLAATJE

Historically closely associated with diamond mining, the city is the provincial capital of the Northern Cape. Its population is approximately 250 000, and population growth has been slow, at about 1.1% per year (1996–2016).

1830s

The start of diamond mining – in 1888, Rhodes, Bernato and others founded the De Beers Mining Company in Kimberley.

Mid-1990s

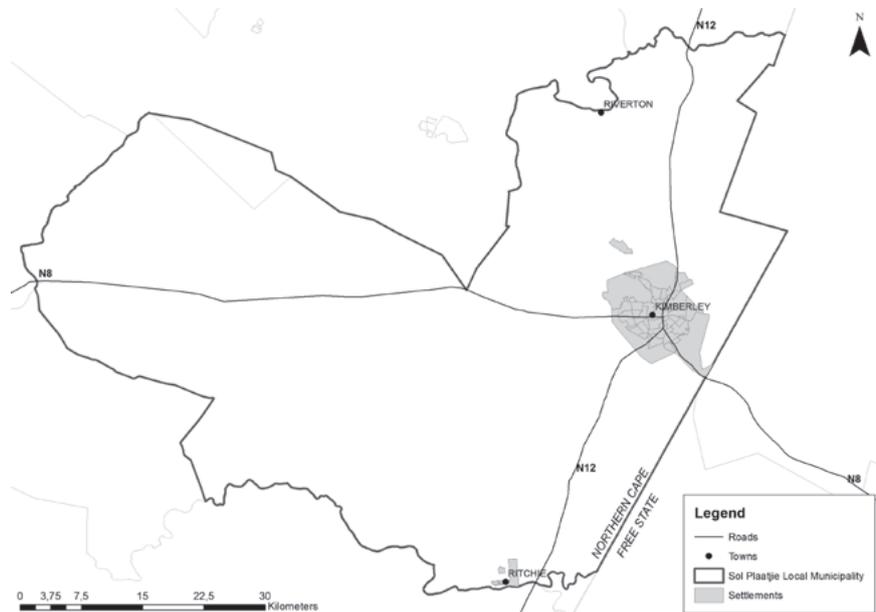
De Beers moves its head office out of Sol Plaatje.

2014

Sol Plaatje University opens, the first university to be established in the Northern Cape Province.

2015

De Beers sells all its mining rights in Kimberley.

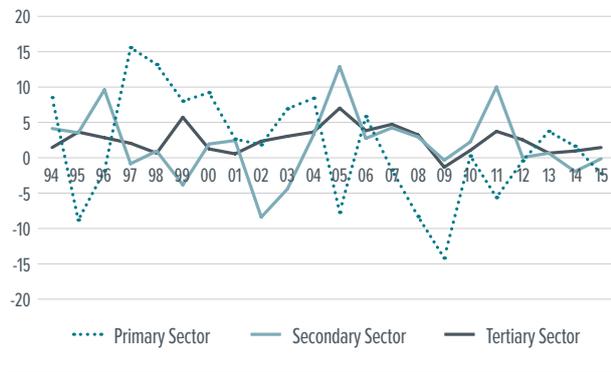


Main economic function

Two external factors saved the economy of what would otherwise be a dying mining town: the establishment of Sol Plaatje as the capital of the sparsely populated Northern Cape Province and the opening of a new national university five years ago. The city’s capital status ensured that large numbers of public servants settled in the city, helping to maintain the housing market and creating demand for office space, and served to direct government spending on hospitals and other public services. This in turn expanded the regional services function of the city. For the last 25 years, diamond mining stimulated the economy, but this is no longer the case. A large artisanal mining sector has developed in Sol Plaatje that remains unregulated and illegal, despite attempts to formalise these activities. Over the last two years, the economy has changed, and economic development officials are concerned by the loss of large numbers of businesses. Overall, the city struggles with political instability, bulk water supply and basic service-delivery problems.

The economy

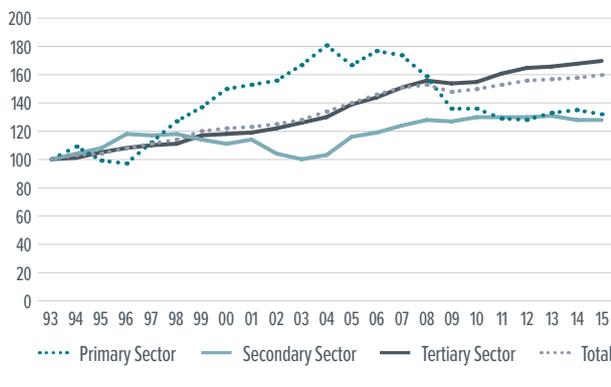
FIGURE 10: Annual economic growth per sector (1994–2015)



Between 1993 and 2008, Sol Plaatje achieved an average economic growth of 2.9% per year. However, over the past few years growth rates have been lower, closely mirroring the national growth rates. Between 2008 and 2015, the economy grew by just 0.6% per year.

The primary sector (mainly diamond mining) shows volatile economic growth rates. In 2015, mining contributed only 12% of the local economy, down from 19% in 2004.

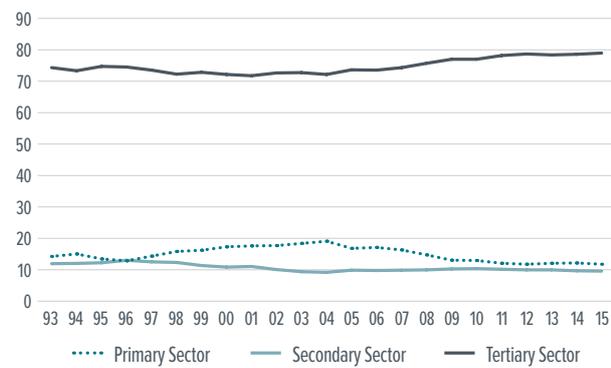
FIGURE 11: Economic growth (1993–2015), 1993 = 100%



The secondary sector contributed only about 9% of the economy, while the tertiary sector accounted for nearly 80% of the economy, which is to be expected given that Sol Plaatje is the capital of the Northern Cape.

Between 1993 and 2015, the tertiary sector outgrew the primary and secondary sectors.

FIGURE 12: Percentage share of primary, secondary and tertiary sectors (1993–2015)



Economic development planning

Sol Plaatje has an Economic Development Directorate that focuses on tourism and enterprise development. The municipality has started a process to develop a new economic development strategy, but the fact that one does not exist is problematic. Integrated economic thinking is limited, and the overall strategy is unclear. However, the city’s economy has benefited from external government decisions, such as in 1994 when the city became the provincial capital, and in 2015 when a national university opened its doors. Another boost came in 2012 when the provincial government established a convention centre, which enables the city to attract niche conferences, rather than compete with Cape Town or eThekweni for large conferences. The tourism experience focuses on the Big Hole, extreme adventure sports and desert tourism

Findings: What the Cities Say About LED

The findings in this section are predominantly from workshops with representatives from three intermediate cities and are contextualised with reference to relevant research.

4.1 Policy aspects

LED is an ambiguous concept

South Africa's history of colonialism and apartheid necessitates a specific approach to economic development. The national government emphasises the need for inclusive economic growth, to broaden participation in the mainstream economy, which requires strategic responses from local governments. However, research conducted in South Africa's metros found that "inclusive economic development is often not clearly articulated" (SACN and SALGA, 2016: 7), which is also the case in intermediate cities. Defining inclusive economic growth is not easy because "economic development is a complex concept" (ibid: 47) and because of the division between pro-growth and pro-poor economic development approaches in South Africa. For most municipalities, the LED focus appears to be almost exclusively on the pro-poor, not private-sector-oriented, nature of economic development (Hofisi et al., 2013).

Participants recognised the danger of focusing only on pro-poor LED:

“Our understanding is that LED must make sure that there are some backyard gardens ... not realising that we are dealing with the mainstream economy.

There is also uncertainty around the extent to which the LED unit should "facilitate" or "run multiple projects in different categories at the same time". However, most participants agreed that LED should focus on redistribution and ensuring that local procurement takes place. Types of support include access to preferential procurement, based on municipal policy guidelines for local procurements, working with Seda offices, direct municipal interventions and linking small and larger enterprises (e.g. Rustenburg links waste-pickers with formal enterprises in the recycling industry).

The link between economic development and municipal revenues was made:

“You know what, an investment into LED is actually an economic spin-off; it will be an indirect investment to the municipality regarding revenues that one will be able to collect.

However, the thinking around how the economic development function integrates with other municipal functions was limited. The best link was the one with spatial planning, while integration with engineering services and budget forecasts was not evident.

Participants provided many practical examples of what LED entails, reinforcing the notion that LED is an ambiguous concept. Examples mentioned included:

- Facilitating community and social projects
- Diversifying and stimulating the economy
- Replacing mining
- Providing an adequate investment environment
- Attracting or promoting investment
- Using land use to stimulate economic development
- Creating jobs and skills
- Increasing municipal incomes
- Working with the private sector
- Supporting the informal economy and small entrepreneurs
- Creating links between emerging and established entrepreneurs
- Delivering basic services
- Addressing existing inequalities and poverty
- Raising incomes.

National government is not helping

The national response is characterised by silence, with “emails on emails, on emails” going unanswered, as one participant said. Even when a response is needed, such as in the case of mine downscaling, none is forthcoming.

“There is silence from national [government] with regards to policy direction for economic development, for addressing challenges like the ones that Rustenburg is facing, making sure that there are things that are put in place, practical solutions to problems.

Furthermore, decisions taken at national level can result in numerous constraints at local government level.

“because the national government controls the macroeconomy, and if you have a national government that takes certain decisions and Eskom cannot provide energy because there was no appetite to this capacity ... and then those are serious constraints that the municipality needs to make the best of the situation.

“Moreover, essentially what is happening at the present moment is obviously [what] the country is going through ... it’s not good. There’s a lot of uncertainty and the investors are holding on to huge reserves, and all we can do is to get the basics right from [the] municipal point of view and ensure there’s coordination between what municipalities and national government do.

There is a perception that national (and provincial) government reacts too late, “once the damage has been done”, and local politicians and officials are the ones who have to face disgruntled communities about problems that are often created by policy decisions taken by national government and poor intergovernmental relationships:

“No minister speaks to dissatisfied communities on a daily basis.

The problem of intergovernmental coordination is more serious in mining communities such as Rustenburg. Coordinating local plans – integrated development plans (IDPs) and social and labour plans (SLPs) – through the Department of Mineral Resources is a difficult undertaking that gives rise to uncertainty. Local municipalities have little control over what ends up in SLPs, which are part of a mine’s mining licence and approved by the department, which often signs off without having obtained local consent for the plans.

“That thing is so far locked down. I do not know if we’ll get the Da Vinci Code any time soon.” [in relation to the lack of implementation of the Strategy for the Revitalisation of Distressed Mining Towns]

Infrastructure investment in intermediate cities is largely linked to funding from national line departments, although this is bound to change with the introduction of the ICSP.

“We are dependent on grants. Most of our spending is funded by grants, which is not supposed to be like that.

This reliance on national grants means that municipalities seldom determine the economic value or contribution of infrastructure, and that most infrastructure goes towards addressing service backlogs. While this is not in itself wrong, the unintended consequence is that municipalities are not compelled to think about infrastructure in economic terms.

Dependency on national grants also complicates implementation. For example, the catalytic projects in the Rustenburg Master Plan all assume national funding. This degree of dependency means that plans are not based in reality but in the hope of accessing finance from elsewhere, which often leads to accountability getting shifted to other spheres of government.

4.2 Institutional aspects

The municipality is confused about the LED department’s role

Within municipalities, economic development is not a high priority and is often either ignored or dominated by other directorates and officials. LED departments are understaffed, and “the LED unit does not seem to have a voice in the municipality”. LED units “are predominantly located in the lower orders of the municipal organogram” and so “not well located to influence municipal strategy” (SACN and SALGA, 2017: 48). One participant likened working in the municipal economic development directorate to “sitting in some dark corner”. LED departments have to “fight all the time [...] for budget allocations”. In one municipality, an economic development directorate was downscaled from a directorate to a unit.

Outside of the economic development department, “there’s a huge misunderstanding of what the role of LED is in the local municipalities”. A common expectation is that the LED unit should focus on social and community projects – “small little pottery projects here and there”. Yet, as participants from Rustenburg acknowledged, a range of community projects is unlikely to ensure a post-mining economy.

Municipalities are “geared towards service delivery, without necessarily giving the same level of attention to local economic development”.

“We have identified projects that can move the economic needle of our municipality and can transform the economic complexion. However, then, because of the basic service delivery, as opposed to economic development, you would not have the resources to find the projects that we want.

Part of the problem is that economic development is a non-tangible function. Tangible functions, such as constructing roads, houses or infrastructure, are easier to support and finance.

“When we are putting money [into something] as a municipality, we want to see a road or a house or a park or whatever. So it is very, very difficult to advocate for economic development budgets, for example, a radio advertisement.

Research shows that many economic development directorates do not have well-defined roles and responsibilities for their employees (SACN, 2017). Although the research did not investigate existing roles and responsibilities, the institutional uncertainty spills over into job descriptions.

For participants, economic development needs to occupy “centre stage” in the municipality – the municipality as a whole has to take ownership of the process of integrating LED into its practices. However, this would require correcting the perception of LED, especially among politicians, and clarifying the roles and responsibilities of LED directorates and staff.

LED departments lack capacity and resources

Many LED units are understaffed, as municipalities side-step these units, and have limited budgets (Nel and Rogerson, 2016). With limited funds and investments, municipalities are highly unlikely to move to “a path of sustainable economic development or to make a significant dent in entrenched levels of poverty and unemployment” (ibid: 117).

“The lack of understanding of the function of LED in local municipalities has led to the neglect of LED regarding human resources.

Given that municipalities do not provide sufficient funding to the economic development function, it should come as no surprise when the LED department is unable to deliver on its mandate. While the lack of finance for marketing expenditure is “a generic problem”, LED departments are expected to deliver.

“When LED is unable to deliver on its mandate, it comes as a shock, but you are under-resourced in terms of your warm bodies or finances.

If municipalities do not view economic development as a core function, creating institutional capacity will always be difficult. Currently, the employment practices do not place people with the appropriate skills in LED units – the economic development function is “like a dumping unit for politicians that are not performing well”.

“You have to caretake the government official who is a nursing sister who has [sic] to be deployed in the LED unit and turn him or her into [a] world-class economist.

As a result, many LED departments lack clear strategies, which means that new managers can potentially reinvent strategy and planning.

“If the Head of Department does not like something, we start things afresh.

There seems to be nobody who is calling for a strategic approach. LED departments are more likely to be filled with planners than economists; indeed, few municipalities employ economists to help them address some of the problems. As an example, none of the officials who attended the workshops has an economic background.

4.3 Strategic aspects

Strategic plans are disconnected from reality

Municipalities are required to develop a range of plans of which the IDP is the overarching five-year plan. The IDP should contain an LED strategy (five years) and an SDF (20 years). Participants acknowledged that you need “to understand the state of [the] economy before you even plan”. However, proper viability studies and economic impact assessments are usually absent from the plans, which seldom consider the possibility of economic decline. For example, the Rustenburg Master Plan envisages a growth rate of 5% despite the city having a negative growth rate over the past five years. Similarly, Matjhabeng keeps on planning for a growing economy after nearly two decades of decline (SACN, 2017).

Many intermediate cities have plans that are over-ambitious and unimplementable without funding from national or provincial government. The plans often consist largely of wish lists born out of grandiose thinking by consultants, LED officials or politicians, with insufficient input from municipal staff.

“Generally, we have dreams and wishes.

As a result, the plans do not make economic sense, make simplistic assumptions about complex economic value chains (e.g. they consider the supply side but ignore the demand side), and assume that the public sector will be able to drive (and fund) these plans.

“It becomes a waste of time and just becomes planning and planning. There are a lot of documents in government with wonderful plans, but they never bear fruit.

The use of consultants (often from the engineering or planning disciplines) frequently leads to a lack of inclusivity in developing the plans. This results in, for example, plans to develop manufacturing industries, become manufacturing hubs for cars or large-scale logistics hubs for fast-moving goods, without considering certain hurdles, in particular competition from larger metropolitan areas.

“How do you put such an important thing [in place] without involving the various stakeholders?

Intermediate cities are unlikely to win battles for markets or funds from national government against larger metropolitan areas with agglomeration economies and easily available supply chains and markets.

“We spend so much time and so much effort and so many resources trying to come up with documents that will influence especially financial decisions. However, at the end of the day, we remain with these trivial things that are not assisting [us].

The strategic plans are not updated consistently and in some cases date from more than 10 years ago.

“I want to say, when the strategy was developed, meaning this 13-year-old strategy because nobody says this strategy must be reviewed because somehow it does not really speak to what we see as the realities currently.

“You might find what was feasible and viable back then because it was done in 2011, which is seven years ago. It might not [be] viable today.

The lack of up-to-date plans suggests poor initial planning, limited capacity to adjust plans and a lack of institutionalisation of the plans within the municipality. The plans also often neglect the relationship between basic service delivery, urban management and economic planning. Participants have found that municipal officials (and more so local populations) do not always understand the relationship between basic service delivery and economic development.

“So you look at the master plan, you look at basic service delivery, you look at the reality, and you ask yourself, “How am I going to sell this master plan to someone if water is leaking everywhere?”

This is frustrating, especially when cities experience problems with service delivery. For example, basic service delivery problems, especially with water, in Sol Plaatje led to the shutdown of the city, and the tourism sector was the first to feel the negative impacts. This neglect also has serious implications for retaining existing business and creating a living environment that will attract skilled people – having raw sewage in the streets has a negative impact on doing business.

“If everything is stinking, what do you sell at the end of the day?

Intermediate cities that depend on mining have specific challenges. In theory, municipal IDPs should dovetail with the mines’ SLPs. However, in practice the results are mixed. Although mines often deliver adequate infrastructure to mining communities, communities remain largely dissatisfied with the mines – a concern is that mines play communities off against municipalities and vice versa. More importantly, municipal plans seldom consider the implications of mine closures or mine downscaling. It also seems that municipal economic development directorates are not trusted with this function, which is centralised in the mayor’s office.

The private sector is not aligned with the municipality

In some instances, the outcomes envisaged by the municipalities and the outcomes achieved by the private sector are different. For instance, in one municipality, the private sector was developing towards the west, whereas the municipality was providing infrastructure towards the east.

“For the private sector if you develop towards the east, they still view it as a high-risk development. So, it is market forces that are still pulling us basically to the west of the city.

The degeneration of CBDs is a common concern, with rising crime and disorganised business practices, and a trend of prominent enterprises moving out of city centres.

Municipalities should be creating an enabling environment or facilitating economic development.

“Our municipality has got a critical role in promoting those economic development inputs in the country.

Yet there appears to be little appetite for PPPs – among the three case-study municipalities, only one PPP was identified for developing human settlements and none for economic development. In general, relationships with organised business are absent, ad hoc or haphazardly structured.

“We do not really know what business in general is thinking because we haven’t worked closely enough yet.

A challenge for municipal officials is dealing with the diversity of business interests, which can range from mining-related issues to complaints about basic service delivery, or requests to access public procurement opportunities.

“The Rustenburg Chamber of Commerce is mainly [a] body which many enterprises are affiliated to; then there are business people organising themselves into forums they want to access tender opportunities. So, that discussion and this discussion becomes two different meetings.

Where municipalities have created forums to support economic development, private sector representatives often do not attend, so the forums are “generally reduced to government talking to government”.

Economic analysis and intelligence are lacking

The period directly following the democratisation of South Africa was characterised by a lack of local economic data, making it difficult to develop an adequate understanding of economic trajectories (Rogerson, 1997). When data did become available, it was expensive and unaffordable for smaller local governments. In recent years, data has become more readily available and affordable, and many local plans (IDPs, SDFs and LED plans) now outline economic profiles. Yet problems remain. A respondent from a spatial planning department captured the need that is not being met.

“So the thing is that you need to be a good support and reliable support system to us in spatial planning and the IDP office you need to be more on top of one’s game, and engage more with Statistics South Africa and the other sources that you can get in order to give us [the] most recent data [...] when we develop our IDP

Municipalities do not have adequate economic intelligence to support decision making. Both economic and population forecasting are largely absent or simply based on assumptions.

“[In response to a question on population forecasting] That is a very difficult question to answer. Despite the long strike that we had, it will keep on coming to us. So, I do not think we will be able to say whether people are not going to continue coming into our municipality.

Often economic profiles do not include an assessment of global trends or a comparison with a decade or two ago, and an explanation of why changes have occurred. While some data is better than no data, substantial parts of the data are based on assumptions, which means the data for the sub-elements of the economy is less reliable. This is because Stats SA and Global Insight do not provide municipal-level data.

“ Then you find that Stats SA cannot provide us with details at the municipal level. What they have is what will come from the national level and up to province and, if we are lucky, at the district level. However, we are the ones who are answerable to the community.

At the same time, LED departments lack the resources and capacity to deal with the data provided.

“ So, if they have to choose between an electrician and a statistician, they are going to go for an electrician.

“ Choosing between the plumbers and your own fieldwork or data collection for your own internal economic intelligence, they will go for the artisan and plumbers.

It is difficult to analyse substantial parts of the economy using mainstream data categorisation. A good economic analysis can combine some of the mainstream data with other data, such as municipal data, but this would require an active strategy within the municipality to gather municipal and other data consistently. While participants emphasised the importance of economic intelligence, for analysing/separating the tax and services income of various land uses, or building a database based on building plans approved or land-use changes, they were not sure how to integrate this and data from other municipal departments into LED planning strategies.

“ In fact, we did get that information from the finance department in terms of rates collection, but in terms of [how] to integrate it into the planning strategies, it [is] still an area that is a little bit grey.

Furthermore, there is only limited evidence that some of these datasets can be systemised and used for different planning needs at the local government level.

Reimagining Local Economic Development

The IUDF (DCOG, 2016) and the report by SACN and SALGA (2017) recognise that the economic development function at municipal level requires a rethink. The SACN and SALGA report suggests the following:

- Review the economic development function through a discussion of the roles and responsibilities of all spheres of government to bring clarity and direction to the municipal economic development function.
- Redefine and review the systems and arrangements to support a more integrated, efficient and impactful municipal economic development function.
- Through the development and implementation of the IUDF, it is critical that relevant national departments support and energise the debate regarding the economic development function in alignment with the findings of this report.

This report goes somewhat further by proposing that the South African system may need to reimagine LED because it is evident that municipalities need to interact with, and respond to, their economies differently. This re-imagining of the LED function should be based on four principles that were synthesised through this project:

1. A functional economic development directorate can exist on a small budget.
2. A functional economic development directorate needs to be involved in both pro-growth and pro-poor projects.
3. Economic thinking must be integrated into the other functions performed by a municipality, which can be achieved without a large budget or large-scale projects.
4. A functional economic development directorate should furnish the rest of the municipality with economic intelligence, obtained from both external and internal sources.

5.1 Mainstream economic considerations



Economic thinking needs to occupy centre stage in the municipality. This will require the economic development department playing an important role in integrating economic development strategies throughout the municipality.

“So, I might be a little bit naïve; so help me if I get it wrong there. I think what I am trying to argue is that [in] an LED unit, things are [a] little bit more about how to integrate ideas about the economy throughout the municipality. [This] might have a better ability to change the economy than one focusing on projects.”



Ideas for actions that the LED department can take include:

- Ensure that the municipality appoints more people with economic and business skills.
- Organise learning events within the municipality on the impact of the economy on service-delivery functions, budgets or overall strategy.

The role of basic service delivery is important in economic development and is not always understood. Therefore, economic development departments could assist by monitoring service delivery, perhaps by conducting an annual service-delivery satisfaction service. The economic development department could also help other departments to understand the impact on the local economy of inefficiencies in the system. For example, the efficiency of connections, maintenance and provision of water and sanitation services, or the speed at which clearance certificates are provided.

“ The economic development unit needs to support planning or any other department with that type of expertise.

“ LED units need to be good support and reliable support system to us in spatial planning and the IDP office. You need to be more on top of ... what you're engaging in, more on top with Statistics South Africa and the other sources to give us the most recent data.

Longer-term strategies include helping sector departments to understand local economic drivers and consequences/risks for their areas. To achieve this, economic development departments can take the following actions.

- Develop narratives to explain the current economic situation, future risks and implications, so municipal management and other departments understand.
- Identify economic assets and assess the municipality's competitive advantages, which might (for example) be linked to a city's regional services function.
- Develop long-term plans and visions, and ensure these plans are included in the IDPs.
- Link IDPs and SLPs more effectively in mining towns.
- Develop appropriate intergovernmental relations to support a local development strategy.

Some of the discussions also focused on the potential value of creating a local development agency, beyond the ambit of local government, that could possibly be more flexible in their approach to economic development.

5.2 Use municipal levers to support the economy



Land-use planning and the property-rates systems are mechanisms that can be used to influence residents' behaviour, deal with economic growth and decline, and generally steer development. In the case of intermediate cities, some have seen economic decline – Matjhabeng (Marais, 2013), the City of Matlosana (Van Rooyen & Lenka, 2016) and Emfuleni (Marais et al., 2016b) – while others have had higher economic growth – Rustenburg, Mbombela and Polokwane (Ntema & Venter, 2016).

Municipalities can apply different land-use policies in different contexts. For example, the municipality could reduce the number of land-use regulations (in times of economic decline) or change land-use regulations (in times of rapid economic change).

Changes in land use should be simple, in order to accommodate both business and individual responses that might not be exactly in line with the current land-use regulations. Short-term options to consider include:

- Proactive rezoning, which would require planners understanding and identifying land-use trends at an early stage and how to zone accordingly.
- More flexible land-use regulations.
- Property tax system, as a way to promote economic development. For example, municipalities giving discounts for specific land-uses. In the case of intermediate cities consideration should be given to land-uses that extend the regional services function.

Long-term strategies include:

- The relaxing of zoning parameters to promote economic growth in areas of economic decline; for example, allowing for higher coverage.
- The introduction of performance-based zoning, which was originally developed to facilitate environment-related outcomes but can also be applied to economic growth.

Intermediate cities also need to understand the relationship between land uses and their regional services function, to ensure that land-use applications support that function.

5.3 Build economic intelligence



Good economic intelligence is crucial for intermediate cities. The LED directorate should help the municipality to develop a common understanding of the economic reality in the municipality, while sectoral departments should develop their own internal datasets in association with the economic development directorates. Short-term actions that the economic development department could take include the following.

- Identify and measure the business red tape.
- Develop an annual business confidence survey.
- Employ the telephone directory methodology to develop a database of business closures and business change.

Municipalities have substantial chunks of economic information that are seldom used for economic or other planning purposes. An example of information that can be used as economic intelligence comes from monitoring the approval of new building plans and new land-use applications on a quarterly basis, drawing a distinction between different kinds of land use. A thorough understanding, over a long period, of property transactions, valuation rolls and property tax by a subgroup of land uses could provide knowledge of the trends in property subdivision, property consolidations or foreclosure, thereby improving the planners' understanding of the economy. Intermediate cities need to create datasets for planning purposes. The SACN dataset, based on data provided by their nine members, is a very good example of how to use a range of datasets to build a knowledge base for a group of cities. SALGA could consider something similar for the intermediate cities in South Africa.

Economic intelligence can contribute to and support various municipal departments and functions:

- With economic intelligence (internal and external to the municipality), finance departments can align their budgets with economic trends and ensure that their municipalities remain going concerns.
- Based on the economic intelligence, various departments can develop scenarios to help them plan for economic growth and decline. This will assist (for example) engineers in understanding the long-term implications of planned engineering services, and enable spatial planners to align their plans with economic trends.
- Finance departments will be able to develop adequate trends in revenue collection associated with different land uses.

With improved economic intelligence, municipalities will be able to consider different economic scenarios and generally adapt to the changes in these scenarios. For instance, spatial planners should have plans available for various economic scenarios and ensure that current planning is aligned with economic trends.

“ So, you need to have a bunch of analysts and researchers who are there on a full-time basis, understanding on a regular basis the state of [the] economy and being able to focus on various things what will happen if this happens – if there is a shock in [the] economy, you know, different kinds of scenarios.

This idea of scenario planning was welcomed by workshop participants.

“ For us there was much value add[ed] especially when it comes to the issue of scenario planning, always having more than one option of what your possible outcome could be.

5.4 Strengthen economic strategies



Place-based strategies emphasise the importance of locally developed strategies that focus on local assets and potential. With economic intelligence, the quality of strategic planning for economic growth would improve because plans would be realistic, based on the current and forecast economic conditions, and take into account the limited funds available. Economic strategies would then need to be integrated into the municipalities. Municipalities can take some practical steps in this regards.

- Develop sector forums.
- Appoint an economic development advisory body.

Over the longer term, the economic development directorate can ensure that the economic strategy is appropriate for the economic context by having a comprehensive understanding of local economic drivers and assets, as well as the opportunities and risks presented by technological advances.

The draft National Framework on LED calls for innovation-led local economies. Some intermediate cities understand their assets – for instance, Sol Plaatje’s assets include the flamingos at Kamfersdam, the availability of a university, medical facilities and the Big Hole. By leveraging assets, cities can expand their regional services role, as in the case of Rustenburg whose ideas include creating a fresh produce market and supporting the agricultural sector. However, the fourth industrial revolution could potentially undermine the regional service role, if electronic media replaces the current face-to-face transactions and services. Rustenburg has identified the green economy as a key sector, including biogas and solar energy, but most intermediate cities do not seem to emphasise innovation.

5.5 Develop economic partnerships



“Municipalities do not drive economic development, but rather facilitate economic development through service delivery and partnerships” (SACN and SALGA, 2017: 49). These strategic partnerships can be hard to establish, as municipalities find it difficult to liaise with multinational organisations. To be able to do this, officials need two critical skills: an understanding of the environment in which multinationals operate and the risks that they experience. Another aspect is that the South African experience of PPPs limits the institutional memory regarding such partnerships.

Working with the private sector is no easy undertaking and would require municipal councils and staff to understand the relationship between the private sector and government and to have an outward focus. Practical steps to consider are:

- Train people to work within social compacts.
- Ensure that councils not only understand their relationship with the private sector but also that there are limits to what councils can do.
- Establish LED agencies.

5.6 Create appropriate institutional arrangements



Economic development requires the development of strategic management and leadership skills, appropriate economic literacy, and a proven ability to network and build partnerships. These functions might require a differentiated approach and, as local municipalities are unlikely to be able to implement all of the suggested aims, provincial governments and district municipalities could ideally share some of these functions. Nevertheless, municipalities could take some practical steps, including the following.

- Appoint subcommittees for economic analysis and economic risk identification, bearing in mind that economic risk identification differs from institutional risk identification in that it identifies risks that are beyond the municipality's direct control.
- Rethink the current structure and functions of economic development departments and units.
- Employ staff who have been trained in economics, data management and business skills.

A range of skills and capacities will be required to produce the economic intelligence that will underpin economic strategies. While metropolitan municipalities could possibly develop the required capacities, intermediate cities would probably require support from their district municipality. The main skills are economic analysis, ability to create internal datasets, economic forecasting and economic intelligence. Participants at the workshop identified the following skills:

- Ability to do market and demand analyses (local, regional, national and international levels.)
- Ability to do feasibility studies, especially of catalytic projects.
- Industry-specific knowledge (for example, understanding the mining industry).
- Ability to manage and interpret statistics.

An important skill required is that of conducting economic risk assessments. Intermediate cities have vulnerable economies, especially those that are linked to mining. Practically, this would mean each municipal department articulating the risks attached to economic change, by identifying economic changes and their implications and likelihood, and developing various scenarios related to economic growth. These risks and scenarios would be integrated into the function and planning of all municipal departments.

The six proposals detailed in the previous section do not provide a new approach but rather reinforce and relate to the main ideas contained in the policy documents that aim to reposition LED in South Africa (Table 2).

TABLE 2: Aligning the research with other policy documents

MAIN PROPOSALS	MAIN FINDINGS FROM THE RESEARCH	IUDF	NATIONAL LED FRAMEWORK
<p>P1. Local governments should strengthen economic strategies that are appropriate for their specific economic context and based on reliable economic intelligence</p>	<p>F1. ICMs are vulnerable, as they often depend on a single economic sector and “old” economies. They are also vulnerable to decisions made by national government.</p>	<p>Referring to intermediate cities: “Their specific challenges include being dependent on one or key economic sectors (and so vulnerable to economic or policy shocks).”</p>	<p>“Provide tools for economic development that include the weakest and most vulnerable sectors.”</p>
	<p>F2. In addition to international links, ICMs have important regional functional roles, which should be considered in their economic development strategies.</p>	<p>Local governments should consider using their various planning instruments (e.g. SDFs and related area-based plans) to link rural and urban areas.</p>	<p>“Recognize rural-urban interdependency and the need for a more comprehensive, integrated approach to urban and rural development.”</p> <p>Encouraging rural-urban linkages will result in the development of whole space economies.</p>
	<p>F3. LED strategies are ambiguous and often focus primarily on pro-poor and redistributive functions. Consequently, economic growth is not a primary driver for economic development. Instead, the focus is on community development concerns.</p>	<p>“Economic development has been neglected in many urban areas.”</p> <p>“Urban authorities should be enabled to tackle unemployment and to strengthen the local economy, by taking on a more decisive leadership role and directing strategic policies and investments.”</p>	<p>“Local Economic Development is an intrinsic lever for advancing inclusive economic growth.”</p>
	<p>F4. Working with the private sector is critical to economic development. ICMs do not fare well in building partnerships and appropriate relationships with the private sector. ICMs suffer disproportionately because their economies are smaller.</p>	<p>Municipalities should also engage with external economic stakeholders, to develop a shared understanding of the situation and enable joint problem solving,</p>	<p>“More should be done to encourage institutional partnerships with the private sector and parastatal organisations to support and implement LED.”</p>



MAIN PROPOSALS	MAIN FINDINGS FROM THE RESEARCH	IUDF	NATIONAL LED FRAMEWORK
<p>P1. ... Continued</p>	<p>F5. Adequate infrastructure plays a vital role in the development of ICMs. Yet these cities have ageing infrastructure and an inability to prioritise the right infrastructure investments.</p>	<p>“[They have] inadequate municipal infrastructure and maintenance, which prevents them from expanding their economic base</p>	<p>Infrastructure maintenance assists with the ease of doing business</p>
	<p>F6. ICMs have weak and unrealistic economic development strategies and too often do not understand their position in the national space economy</p>	<p>“Economic development has tended to remain marginal to the core municipal tasks of providing basic services.” “Municipal economic policies and economic development strategies are often dominated by wishful thinking and piecemeal initiatives.”</p>	<p>The National LED Framework provides a vision for the planning and implementation of LED in South Africa, as well as a guide to various sectors about the role they can play in driving innovation-led LED.</p>
<p>P2. Local governments should mainstream economic considerations into their sectoral departments and also into the accompanying strategies of those departments</p>	<p>F7. The technical departments of municipalities often do not understand the economic role of infrastructure.</p>	<p>“An integrated urban infrastructure, which is resource efficient and provides for both universal access and more inclusive economic growth, needs to be extensive and strong enough to meet industrial, commercial and household needs.”</p>	<p>“LED as a crosscutting theme that needs to be integrated into all other programmes.”</p>
	<p>F8. ICMs do not integrate economic development concerns and economic growth into line departments or directorates. There is confusion over the role of the economic development directorate/unit.</p>	<p>“Economic development has tended to remain marginal to the core municipal tasks of providing basic services.”</p>	

MAIN PROPOSALS	MAIN FINDINGS FROM THE RESEARCH	IUDF	NATIONAL LED FRAMEWORK
<p>P3. Local governments should create appropriate institutional arrangements that support economic development.</p>	<p>F9. Poor intergovernmental relationships hamper the development by ICMs of appropriate and aligned economic development plans.</p>	<p>“Many of national and provincial governments’ economic policies and programmes are fragmented.”</p>	<p>“This rests on effective intergovernmental coordination between government and non-governmental sectors.”</p>
	<p>F10. Municipalities often neglect LED units/ directorates, which employ people who are not skilled appropriately.</p>	<p>“Compared to other municipal functions, economic development requires different skills and competences.”</p> <p>“Municipalities should consider appointing economists, project facilitators and people with appropriate business experience.”</p>	<p>“There is also limited capacity to engage and make deals with these external organisations.”</p> <p>“Greater state capacity at all three tiers of Government is critical in making this happen and in delivering the broad objectives of this Framework.”</p>
<p>P4. Municipalities should do more to build economic intelligence, with the assistance of other spheres of government</p>	<p>F11. At the municipal level, the attempt to provide economic intelligence and measure economic efficiencies is limited. The opportunity exists for LED units to perform this function.</p>	<p>Municipalities need an “efficient development approval processes to facilitate economic development.”</p> <p>‘An essential ingredient of a successful economic strategy is an improved evidence base, and the ability to use it effectively. Economic intelligence is necessary for developing a robust understanding of the space economy.’</p>	<p>“The framework mentions the use of business intelligence for improving the ease of doing business.”</p>
<p>P5. Local governments need to use municipal levers, such as land-use planning, to support their economies</p>	<p>F12. Often ICMs overestimate their ability to influence the economy. At the same time, they do not consider the levers available to them for facilitating economic growth.</p>	<p>“The empowerment of municipalities with respect to spatial planning and land-use management functions needs to be accompanied by a substantive shift in the objectives of, and manner in which, these functions are performed – from a control-oriented framework to one that facilitates rapid development, particularly to support poor households.”</p>	<p>“A uniform and comprehensive system of spatial planning and land use, facilitating a more central and much needed role for spatial planning within LED.”</p>

Based on these proposals (P1–P6) and findings (FR1–F12), a experimental diagnostic screening tool was developed to provide municipalities and supporting actors with a framework for assessing a municipality’s current LED plan and institutional framework. See Annexure A for the detailed questionnaire and metrics for calculating the scores.

The modest proposition here is that a municipality can undertake this kind of diagnostic in order to get an indicative “health check” on its relative LED strengths and weaknesses, and use this knowledge as a basis for designing responses for strengthening their local economic development role. Some practical suggestions towards possible interventions are offered in Section 5. The research did not extend to a testing of the viability and value of the tool; this would be a useful focus for future research.

Intermediate cities also serve as regional services centres that provide both urban and rural populations with access to higher-order goods and services, such as financial services, and private and public educational and health services. However, the economies of these cities are vulnerable, and often depend on a single economic sector, which brings long-term risks. This report looked at what characterises – and how to enable – economic development within intermediate cities.

South Africa recognises the need for local responses to economic development, or LED. Over the years, the government has followed various strategic directions to promote LED, but the outcomes have been disappointing. COGTA is in the process of developing a National Framework for Local Economic Development that focuses on innovation. The IUDF identifies various concerns relating to LED, including that municipalities sometimes neglect economic development, have plans that not strategic enough, fail to consider sufficiently the relationship between basic service delivery and economic development, and struggle to create adequate enabling environments.

The economic development function at municipal level requires a rethink. Following an action research process, this report proposes the reimagining of economic development at municipalities based on four principles and six strategic issues, and offers a diagnostic tool for municipal consideration.

The four principles

1. Although the research found that the economic development function is under-resourced in the three municipalities, we believe that a functional economic development directorate can exist on a small budget.
2. A functional economic development directorate needs to be involved in both pro-growth and pro-poor projects – our research found that economic development directorates often manage a range of projects.
3. Economic thinking must be integrated into the other functions performed by a municipality, which can be achieved without a large budget or large-scale projects. And, if the economy is to develop, LED needs to occupy centre stage within a municipality.
4. A functional economic development directorate should furnish the rest of the municipality with economic intelligence, obtained from both external and internal sources.

The six strategic issues

1. Local governments should **mainstream economic considerations** into their sectoral departments and also into the accompanying strategies of those departments.

What does this mean practically?

- Employ more people with economic and business skills.
- Educate other departments to understand the relationship between the services they deliver and economic development.
- Develop long-term plans and vision, based on the municipality's competitive advantages and economic assets.

Intermediate cities play an important role in a country's space economy. In South Africa, these cities distribute economic development more equally across the landscape, bring development to people outside the metropolitan areas, and provide their populations with basic infrastructure.

2. Local governments need to **use municipal levers**, such as land-use planning, to support their economies.

What does this mean practically?

- Introduce proactive rezoning and more flexible land-use regulations, especially during times of economic decline.
- Relax zoning parameters to allow for higher coverage, or use performance-based zoning.

3. Municipalities should do more to **build economic intelligence**, with the assistance of other spheres of government.

What does this mean practically?

- Tackle the business red tape.
- Develop a database of business closures, changes and confidence levels.
- Assist other departments (e.g. planning, finance) to develop scenarios for periods of economic growth and decline.
- Use municipal information (e.g. land use applications, clearance certificates) to build economic intelligence.

4. Local governments should **strengthen economic strategies** that are appropriate for their specific economic context and based on solid economic intelligence.

What does this mean practically?

- Develop sector forums.
- Appoint an economic development advisory body.
- Build a comprehensive understanding of local economic drivers and assets.

5. Local governments should **develop economic partnerships**, as municipalities need to facilitate, not drive, economic development.

What does this mean practically?

- Train people to work within social compacts.
- Ensure municipal councils understand the relationship between private sector and government.
- Establish LED agencies.

6. Local governments should **create appropriate institutional arrangements** that support economic development.

What does this mean practically?

- Appoint subcommittees for economic analysis and risk identification.
- Rethink the structure and functions of economic development departments/units.
- Employ people with economic, statistical and business skills.



ANNEXURE A: The Diagnostic Screening Tool

STEP 1: Questionnaire

Rank each statement in Table 3 from 1 (not at all) to 5 (excellent).

TABLE 3: Questions to complete the diagnostic screening tool

MAIN FINDINGS	KEY QUESTIONS	1 = NOT AT ALL; 2 = POORLY; 3 = TO SOME EXTENT; 4 = COMPETENTLY; 5 = EXCELLENT				
ASSESSING MUNICIPAL LED STRATEGY/PLAN						
F1. The research shows how vulnerable these cities are. Intermediate cities often depend on a single economic sector and “old” economies. These cities are also vulnerable to decisions made by national government.	1. The economic strategy identifies the main economic vulnerabilities associated with the economy of this intermediate city.	1	2	3	4	5
	2. The economic strategy identifies the vulnerability associated with national and provincial government decision-making.	1	2	3	4	5
	3. The municipality has completed a risk analysis of the likely occurrence of these economic and decision-making vulnerabilities.	1	2	3	4	5
	4. The LED unit measures these vulnerabilities and provides evidence of these realities continuously. (For example, if the municipality is dependent on mining, how does the price of the commodity and the profitability of mines vary over time?)	1	2	3	4	5
	5. The municipality has conceptualised all economic risks and applied these in various directorates/ departments.	1	2	3	4	5
	6. The various departments have risk-mitigation plans in place for economic risks. (For example, does the Finance department have a profile of how different economic scenarios will influence municipal revenue?)	1	2	3	4	5
	7. The various municipal departments developed different scenarios based on the risks associated with the city's future.	1	2	3	4	5



<p>F2. In addition to international links, intermediate cities have important regional functional roles. Their economic development strategies should consider these regional functional roles.</p>	8. The economic strategy identifies the regional service function as an essential role.	1	2	3	4	5
	9. The economic strategy identifies the higher-order goods and services provided by the intermediate city. (For example, banking and financial services, schools, colleges and universities and the boarding facilities at these institutions.)	1	2	3	4	5
	10. The economic strategy identifies risks associated with the continuous role of these regional services functions.	1	2	3	4	5
	11. The economic strategy states the role of the intermediate city's regional services role for rural development.	1	2	3	4	5
	12. The economic strategy states the links with larger urban areas. (For example, national financial institutions that have regional offices in the city.)	1	2	3	4	5
	13. The municipality prioritises land-use applications for functions that will support their regional service function. (For example, boarding facilities for educational institutions.)	1	2	3	4	5
<p>F3. The research shows that LED strategies are ambiguous. Often these strategies focus primarily on pro-poor and redistributive functions. Consequently, economic growth is often not a primary driver for economic development. Instead, the focus is on community development concerns.</p>	14. The economic strategy considers both pro-poor and pro-growth strategies for economic development.	1	2	3	4	5
	15. The economic strategy proposes mechanisms to ensure economic growth. (If yes, list them.)	1	2	3	4	5
<p>F4. Working with the private sector is critical to economic development. The research results show that intermediate cities do not fare well in building partnerships and appropriate relationships with the private sector. Intermediate cities suffer disproportionately because their economies are proportionally smaller.</p>	16. There is a common understanding between the municipality and the business community of the economic drivers and risks of the intermediate city.	1	2	3	4	5
	17. There are structured engagements between the municipality and organised business.	1	2	3	4	5
	18. Public-private partnerships exist in order to improve economic growth.	1	2	3	4	5
	19. The municipality has an economic development advisory board.	1	2	3	4	5



<p>F5. Adequate infrastructure plays a vital role in the development of intermediate cities. The research shows that these cities have ageing infrastructure and an inability to prioritise the right infrastructure investments.</p>	The strategy states the economic value of infrastructure investments (current and future).	1	2	3	4	5
	The strategy prioritises infrastructure maintenance and motivates this prioritisation using economic reasons.	1	2	3	4	5
	The strategy compares different infrastructure investment through an economic impacts analysis.	1	2	3	4	5
<p>F6. The research shows that economic development strategies are weak and not realistic. Too often these intermediate cities do not understand their position in the national space economy.</p>	The strategy includes a detailed sector analysis showing long-term economic trends.	1	2	3	4	5
	The strategy builds on the assets (those aspects already creating growth) of long-term economic trends.	1	2	3	4	5
	The strategy is realistic considering the long-term trends.	1	2	3	4	5
	The strategy places the intermediate city in direct competition with larger cities.	1	2	3	4	5
	The strategy considers the role of the municipality in the national space economy.	1	2	3	4	5
	The strategy includes viability studies of potential projects.	1	2	3	4	5
	The municipality can implement the plan with local revenue.	1	2	3	4	5
	The strategy contains value-chain assessments and value-chain motivations for all projects.	1	2	3	4	5
	The municipality develops the strategy with in-house capacity.	1	2	3	4	5
	There is adequate buy-in for the strategy across various departments/directorates.	1	2	3	4	5
	The municipality reviews the plan annually.	1	2	3	4	5
	The annual review includes stakeholders from outside the municipality. (For example, business, research organisations.)	1	2	3	4	5
	The strategy prioritises efficient service delivery for economic development.	1	2	3	4	5
	In cases where mines operate from the area, the municipality dovetails the IDPs and Social and Labour Plans.	1	2	3	4	5
	The strategy creates an enabling environment for the private sector.	1	2	3	4	5
The strategy considers global trends and disrupters. (For example, the fourth industrial revolution.)	1	2	3	4	5	
The LED strategy consider different economic growth scenarios.	1	2	3	4	5	

ASSESSING INSTITUTIONAL ARRANGEMENTS

<p>F7. The research shows that the technical departments of the municipalities do not understand the economic role of infrastructure.</p>	<p>The municipality compares potential infrastructure projects pertaining to their potential contribution to economic growth.</p>	1	2	3	4	5
	<p>The municipality can evaluate and compare the economic value of different infrastructure investments.</p>	1	2	3	4	5
	<p>The technical department differentiates between infrastructure projects based on their potential contribution to economic growth.</p>	1	2	3	4	5
<p>F8. The research shows that ICMs do not integrate economic development concerns and economic growth into various line departments or directorates. There is confusion over the role of economic development directorate/unit.</p>	<p>The municipality documents the roles and responsibilities of the LED unit.</p>	1	2	3	4	5
	<p>There is an institutional agreement across the municipality of the LED unit's role.</p>	1	2	3	4	5
	<p>The LED unit focuses on both pro-poor development and economic growth.</p>	1	2	3	4	5
	<p>The municipality uses economic data and forecasts to ensure that the municipality remains a going concern.</p>	1	2	3	4	5
	<p>The departments / directorates responsible for parks, sports and recreation consider both pro-poor and economic growth considerations.</p>	1	2	3	4	5
	<p>The infrastructure department/directorate considers infrastructure for basic services and economic growth.</p>	1	2	3	4	5
	<p>The spatial planning department/directorate considers issues pertaining to economic growth and potential economic change.</p>	1	2	3	4	5
	<p>The LED unit/department holds learning opportunities around economic growth and economic development.</p>	1	2	3	4	5
	<p>Different directorates have developed different service-delivery scenarios based on different economic-growth scenarios.</p>	1	2	3	4	5
	<p>The LED unit has created a standard narrative about the state of the economy, and how the local economy links globally, nationally and regionally, which other directorates in the municipality share.</p>	1	2	3	4	5
<p>F9. The research shows that poor intergovernmental relationships hamper the development by ICMs of appropriate and aligned economic development plans.</p>	<p>The LED unit considers effective service delivery and urban management as crucial for economic growth.</p>	1	2	3	4	5
	<p>A long-term agreement (beyond the medium-term expenditure framework) exists between the municipality and national government departments concerning the role of the intermediate city in the national space economy.</p>	1	2	3	4	5
	<p>A medium-term agreement exists between the municipality and various national government departments on expenditure linked to the municipality's IDP.</p>	1	2	3	4	5
	<p>The municipality documented risks are linked to the national and provincial government decisions.</p>	1	2	3	4	5
	<p>The national and provincial governments have a pro-active action plan to deal with risk factors for intermediate cities (see section on vulnerability and risks).</p>	1	2	3	4	5
	<p>The municipality and provincial and national government have aligned budgets.</p>	1	2	3	4	5
	<p>The municipality and provincial and national government have aligned budgets.</p>	1	2	3	4	5



<p>F10. The research shows that municipalities often neglect LED units/directorates, which employ people who are not skilled appropriately.</p>	The municipality has economists working in the LED unit.	1	2	3	4	5
	The municipality has business management experts working in the LED unit.	1	2	3	4	5
	The municipality has a statistician working in the LED unit.	1	2	3	4	5
	The municipality provides the LED units/directorate with adequate staff.	1	2	3	4	5
	Economic growth takes centre stage in the overall vision, mission and objectives of the municipality.	1	2	3	4	5
<p>F11. At municipal level, the attempt to provide economic intelligence and measure economic efficiencies is limited. The opportunity exists for LED units to perform this function.</p>	The LED unit/department provides annual economic and employment figures per sector. (This can include an outsourced function.)	1	2	3	4	5
	The LED unit/department does economic efficiency monitoring and evaluations. (For example, the time it takes to make a new electricity connection to a business or to provide a clearance certificate to facilitate property transactions.) (This can include an outsourced function.)	1	2	3	4	5
	The LED unit/department provides economic intelligence based on in-house data every quarter. (This can include an outsourced function.)	1	2	3	4	5
	The LED unit uses this economic intelligence to provide an appropriate role for the city in the national space economy and ensures that all municipal functions apply this narrative.	1	2	3	4	5
	The LED unit/directorate provides an active business red-tape indicator.	1	2	3	4	5
	The LED unit / directorate provides a useful business confidence indicator.	1	2	3	4	5
	The LED unit/director traces business closures and new business formations.	1	2	3	4	5
<p>F12. Often ICMs overestimate their ability to influence the economy. At the same time, the research shows that they do not consider the levers available to them for facilitating economic growth.</p>	The LED unit/directorate uses payment rates information from the finance department and trends across different land uses to create in-house economic intelligence.	1	2	3	4	5
	The municipality applies land-use regulations in a flexible way to deal with the economic vulnerability associated with economic growth and economic decline. (For example, can land-use regulation be adjusted quickly in periods of decline?)	1	2	3	4	5
	The municipality uses pro-active rezoning as a mechanism to promote economic growth.	1	2	3	4	5
	The municipality uses the property tax system to support economic growth and specific sectors or functions. (For example, those linked to its regional services function.)	1	2	3	4	5
	The municipality has relaxed zoning parameters over the last 10 years to create economic growth.	1	2	3	4	5
The municipality uses performance-based zoning to create economic growth.	1	2	3	4	5	

STEP 2: Calculate the Score

The 12 main findings from the research are placed in a matrix with the six proposals. Table 4 contains the metrics that should be used to calculate the score. The numbers in the table refer to the questions in Table 3.

For the 12 main findings (F1–F12):

Add the totals for the question numbers in the row. If a specific question appears twice, only add the rating once. It is possible to express the total scores as a percentage of the total possible score.

For the six main proposals (P1–P6):

Add the total for each question number in the column. If a specific question appears twice, only add the rating once. It is possible to express the total scores as a percentage of the total possible score.

TABLE 4: Metrics

	P1. Local governments should mainstream economic considerations into their sectoral departments and into the accompanying strategies of those departments	P2. Local governments need to use municipal levers, such as land-use planning, to support their economies	P3. Municipalities should do more to build economic intelligence, with the assistance of other spheres of government
F1. Vulnerability assessment	3, 4, 5, 6, 7		4
F2. International and regional roles		13,	9, 10
F3. Pro-poor and pro-growth LED			
F4. Working with the private sector			
F5. The role of infrastructure in economic development	20, 21, 22	20, 22	21
F6. Quality and strengths of the strategy	32, 35		23, 24, 25, 26, 27, 28, 30, 38, 39
F7. Integration of the economic role of infrastructure	41, 42, 43		
F8. Integration of economic thinking	43, 44, 45, 46, 47, 58, 59, 50, 51, 52, 53,	40, 41, 42, 53	40, 41, 42, 46, 51, 52, 54, 56
F9. The nature of intergovernmental relations			54, 56
F10. LED unit capacity			
F11. Role of economic intelligence	65		64, 65, 66, 67, 68, 69, 70, 71,
F12. Effective use of municipal levers		72, 73, 74, 75, 76,	
(D) TOTAL SCORE			
(E) MAXIMUM TOTAL	120	60	145
(F) % SCORE (D/E)*100			



P4. Local governments should strengthen economic strategies that are appropriate for their specific economic context and based on reliable economic intelligence	P5. Local governments should develop economic partnerships, as municipalities need to facilitate, not drive, economic development	P6. Local governments should create appropriate institutional arrangements that support economic development	(A) TOTAL SCORE	(B) MAXIMUM TOTAL	(C) % SCORE (A/B)*100
1, 2, 3, 4, 5, 6, 7	2			35	
8, 9, 10, 11, 12, 13	1, 2			40	
14, 15				10	
16, 17, 18, 19	16, 17, 18, 19	16, 17, 18, 19		20	
20, 21, 22				15	
23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39,	34, 37	29, 31, 33		85 ³	
				15	
40, 41, 42, 48, 51	50,	50, 52, 53		85	
57	54, 55, 56, 57, 58	58		25	
		59, 60, 61, 62, 63		25	
72, 73, 74, 75, 76				65	
				25	
250	70	80			

³ If this is not a mining area, the total will be 80



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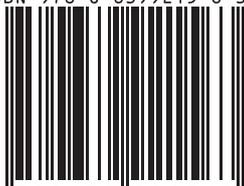


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ISBN 978-0-6399215-6-3



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