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**LOCAL ECONOMIC**

**DEVELOPMENT AND JOB**

**CREATION**

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## PREFACE

### The ANC councillor capacity building programme

During the twelve months preceding the 5 December 2000 local government elections, the African National Congress (ANC) conducted an assessment of the performance of each of its councillors. Many felt that this process was flawed, as it was never clearly outlined to councillors what would be expected of them. The ANC and the Friedrich Ebert Stiftung (FES) then decided to develop a capacity building programme for all ANC councillors. This programme would ensure that councillors had access to the information they needed and knew what would be expected of them.

The ANC 2000 Local Government Elections Manifesto provided a guide to the issues that needed to be addressed in the support materials. These included:

- improving services to all communities;
- providing a free basic level of services like water and electricity to every household;
- creating jobs in communities where people live;
- working for social and economic development;
- building safety and security in our communities; and
- fighting the spread of HIV/AIDS .

The Manifesto went on to state that councillors should regularly report back to their constituencies, should fight corruption in tendering, hiring and other government functions, and that they were obliged to declare all their assets and business interests. If councillors violate any of the above or the code of conduct for councillors, they will be recalled.

### Stages of the project

The first step in the development of the programme was the development of a set of materials based on the issues highlighted in the Elections Manifesto. The following modules have been developed:

- The Legislative Framework of Local Government
- Free Basic Municipal Services

- Improving Service Delivery
- Local Economic Development and Job Creation
- Social and Economic Development
- Safety and Security
- Fighting HIV/AIDS
- The Political Role of the Councillor
- Gender
- Budget and Finance

The second step would be to publish the above materials and make them available to councillors as a guide to performance.

## Conclusion

The ANC is currently setting up local government accountability structures which are meant to provide, in a structured manner, opportunities for ANC councillors to remain accountable and in touch with ANC structures and voters. During the course of the year, the ANC will also finalise the process for councillor performance audits in time for a mid-term performance review of all ANC councillors. Some of the issues that will be considered during the performance assessments are:

- How has the council performed in terms of meeting its development objectives: integrated development planning? the budget? financial viability? and local economic development?
- How has the individual councillor performed in terms of: implementation of ANC policy and programmes? loyalty and discipline as a cadre of the organisation? participation in council and caucus? constituency work? accountability to ANC structures? observation of the code of conduct for councillors?

The process has not yet been finalised, but would comprise a combination of strategies including data collection, self assessment, peer assessment and assessment by ANC constitutional structures.

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## PART A: LOCAL ECONOMIC DEVELOPMENT

### 1 BACKGROUND: *LOCAL ELECTIONS MANIFESTO 2000* - WHAT THE ANC PROMISED

The resolution of the unemployment crisis lies with local governments as well as with the national and provincial governments and the private sector. Local governments control vast amounts of resources that can be invested in job creation and job preservation. Municipalities employ a substantial number of people in their own right.

In its *Local Government Manifesto 2000*, the ANC said, “We must do more to build local economies. Local government policies must create jobs. We must reassess local government financing to ensure that municipalities have the funds to meet the challenges of their communities.”

The Manifesto further stated that local government must target infrastructure programmes within communities by:

- constructing housing, roads, electricity, water and sanitation;
- building new employment opportunities within the administration; and
- promoting skills development among both skilled and unskilled workers.

The Manifesto went on to say that alternatives to restructuring must be found in order to avoid job losses and to create new jobs. Restructuring must take place through consultation and participation, including meaningful discussion with labour.

*We must reassess restructuring plans to find out how they will affect people's jobs. If a particular programme will lead to a lot of job losses, an alternative plan must be designed that will cause fewer job losses. Local government will follow national policies to cut down on job loss and to cushion the impact of job loss (Local Government Elections Manifesto 2000).*

The ANC further promised that local government and its councillors at grassroots level would create an environment for small business development. This would support job creation, help provide affordable services to communities, and help build equity throughout society.

Local governments have a significant role to play in job creation.

*Local government shall also provide services on an agency basis for other spheres of government and local government will participate fully with national programmes such as Community Based Public Works, and work closely with the Department of Labour's Employment Centres in job placement and training.*

*National and provincial departments will work with and through local governments to implement programmes at local level. They will devolve responsibility to local government only where they provide adequate resources.*

## 2 INTRODUCTION

### 2.1 Overview

Local government  
is crucial to  
economic and  
social development.

Local government is not just an important site for the delivery of services, but it is crucial for the economic and social development of people. By working effectively with the other two spheres of government (provincial and national), and with a range of public and civil society organisations and the private sector, local government can also contribute to economic growth, job creation and social development. Over time, through appropriate negotiations and securing further funding, local government will take on increasing responsibilities for service delivery and development.

Joblessness and job losses constitute a serious challenge to South African society. The unemployment rate of more than 20% is a national crisis that requires bold action and a concerted strategy. There are no overnight solutions when addressing the unemployment crisis; rather it requires short-to-medium and long-term strategies. In part, joblessness arises from the fact that we inherited a stagnant and mismanaged economy that has been destroying jobs for over 25 years.

This has been compounded by economic development that has been too capital intensive, by insufficient investment in new factories, plant equipment and skills development, and by too much investment in financial speculation instead of productive investment.

Over the last five years, a substantial number of jobs have been lost. Economic growth has been inadequate to make a serious dent in the unemployment crisis. This is aggravated by the poor skills profile of our labour force – there are more vacancies in skilled positions than there are people to fill them. In order to turn the situation around, South Africa needs a skills revolution as well as policies and mechanisms to channel investment into job creation.

Municipalities have a Constitutional mandate to promote local economic development (LED), as stated in Section 153 of the Constitution:

*A municipality must structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community.*

The South African government has prioritised rural development and urban renewal as key strategies to counter the legacy of uneven development and poverty alleviation. The aim of the LED programme within government is to support all municipalities in South Africa in implementing these strategies. The ultimate vision would be for all municipalities to be attractive places in which to live, invest and holiday. This is to be achieved through an approach that targets the poor and marginalised and addresses the basic needs of people within the community.

Stakeholders must work together to make an impact.

Local stakeholders such as government, business, labour and civil society should work together in order to achieve local economic development. Local communities and authorities can play a role in determining their own economic paths through being proactive. LED involves identifying and using local resources to create opportunities for economic growth and employment. Successful LED depends on local partnerships as well as on national and regional structures that promote and support local initiatives.

Government has a particular role to play in local economic development. It must:

- ensure that LED results in job creation;
- ensure that LED supports sustainable rural development and urban renewal; and
- target LED interventions in a manner that benefits the disadvantaged and marginalised within the municipality through promoting an inclusive and redistributive approach to economic development.

Local government structures have an important role to play in harnessing national and regional resources to promote their local areas, and in bringing about strategic local partnerships to enhance and sustain economic growth.

## 2.2 Key principles underlying LED

Certain key principles underlie the concept of local economic development:

- Poverty and unemployment are the main challenges facing South Africa. LED strategies must prioritise job creation and poverty alleviation.
- LED must target previously disadvantaged people, marginalised communities and geographic regions, black empowerment enterprises and SMMEs to enable them to participate fully in the economic life of the country.
- There is no single approach to LED. Each locality needs to develop its own approach – one best suited to the local context.
- LED promotes local ownership, community involvement, local leadership and joint decision making.
- LED involves local, national and international partnerships between communities, business and government to solve problems, create joint business ventures and build local areas.
- LED maximises local resources, skills and opportunities for multiple purposes.
- LED involves the integration of multiple and diverse economic initiatives in a comprehensive approach to developing a local region.
- LED relies on flexible approaches to respond to changing circumstances at local, national and international levels.

## 2.3 Key strategies for developmental LED

Local economic development must be supported by local government if it is to succeed. The following key LED strategies that will assist municipalities in being developmental have been identified:

- community economic development;
- linking profitable growth to redistributive development/financing;
- making explicit linkages between “living wages”, human capital development, and productivity;
- development and maintenance of infrastructure and services;
- plugging the leaks in the local economy; and
- retention and expansion of existing businesses.

### 3. GLOBALISATION AND LOCAL ECONOMIC DEVELOPMENT

#### 3.1 What globalisation means

Until the 1960s, trade took place predominantly within national boundaries or between neighbouring countries. Import Substitution Industrialisation (ISI) meant that instead of importing goods, countries produced the goods themselves. This economic approach was predominant in developing countries in Latin America, East Asia and Africa. Many countries had almost full employment levels during this time, achieved largely through the growth of domestic manufacturing industries.

However, increasingly from the late 1960s and early 1970s, innovations in technology – especially in the fields of finance, transport and communications – reduced geographic distances between countries, making possible the integration and co-ordination of production and commerce on a global scale. This made it easier for countries to trade with, and produce in, other countries around the globe.

Investment in foreign countries allowed businesses and corporations to expand their markets significantly. Countries benefiting from increased foreign investment acquired knowledge and skills from technology and skills transfer. The globalisation of financial markets meant that international monetary flows were no longer restrained by national boundaries.

This fluidity of capital contributed to the rise of huge multinational corporations (MNCs) and transnational corporations (TNCs), that increasingly began to dominate global trade and investment. It also resulted in increased competition for investment among countries receiving these new capital flows. The nature of this competition was often “race-to-the-bottom” as many countries focused on cost reduction strategies to attract investment, such as low wages, tax breaks and other incentives. For instance, companies in the United States began to set up production centres in the Far East, because cheaper labour allowed companies to reduce production costs and gain competitive advantages. Through these developments, labour-intensive activities shifted to low-cost centres, while high value-added activities continued to be carried out in developed countries.

In order to compete within this changing economic context of increased competition for the domestic market from foreign firms and growing opportunities to exploit new global markets, developing countries in the Far East and Latin America shifted to export-orientated production. This outward shift saw both domestic and foreign firms within developing countries producing goods, exporting and competing in external markets. This resulted in the so-called East Asian Tigers and models of neo-liberalism such as Chile and Brazil in Latin America during the 1980s.

Goods, skills,  
technology and  
money move around  
the world more easily  
than in the past.

The rise of neo-liberalism in the 1980s saw a greater focus on the free market and a reduced role for the state within national economies. Leaders such as Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States advocated neo-liberalism to such an extent that it became synonymous with Thatcherism and Reaganism.

This approach to economic development informed the drafting of world trade agreements such as the General Agreement on Trade and Tariffs (GATT) and the World Trade Organisation (WTO). In developing countries, neo-liberalism surfaced in the form of Structural Adjustment Programmes (SAPs) supported by the World Bank and the International Monetary Fund (IMF). The SAPs had a severe impact on the provision of basic services in developing countries, as they supported a lesser role for the state and a reduction in social spending.

### 3.2 South Africa and globalisation

South Africa remained isolated from these processes affecting other developing countries into the late 1980s, due to apartheid policies and the imposition of sanctions. South Africa's Import Substitution Industrialisation strategies became increasingly unsustainable from the mid-1980s as a result of the growing economic crisis and pressures faced by the apartheid government. As a result of these pressures, South Africa was forced to open up its economy and become globally competitive. During the apartheid years, South African industries were sheltered and were not forced to compete. The opening up of the economy, therefore, severely affected industries that were suddenly confronted with competition in both local and international markets. This in turn led to a process of restructuring the South African economy as a whole as well as individual sectors and firms.

The end of  
apartheid plunged  
South Africa into  
global competition.

### 3.3 Features of globalisation

Globalisation has resulted in a number of key trends. These are evident within South Africa and are reflected within current LED and local government debates:

- *Reduction of the state's role in economic affairs:* The state, it is argued, should only be responsible for establishing conditions for production and for the supply of infrastructure.
- *Privatisation:* As a result of a backlash against the state being involved in the economy, the state is driven to sell some, all, or part of its enterprises through privatisation programmes.

- *Deregulation:* Fewer laws regulate the economy and interfere with the operation of markets, and there are fewer price controls and subsidies.
- *Competition:* At both domestic and international levels, globalisation results in increased competition. Private firms compete for a share in the market, workers compete with each other for jobs, localities and provinces compete with each other for investment, and human labour competes with machines.
- *Outward orientation:* The economy is organised to export goods to be sold on the world market.
- *Trade liberalisation:* Taxes on imports and tariffs are cut and domestic industries are no longer protected from outside competition.
- *Flexibility:* The workplace is organised flexibly to suit the needs of the market. In addition, capital has a great ability to move in and out of a country.

Local economic development can also be regarded as a trend associated with globalisation. As the role of the nation-state within the economy is reduced, and as localities and communities experience differential impacts from globalisation, local responses emerge to local challenges.

Municipalities within South Africa have not remained free of these global influences. Current debates regarding the role of local government in LED, the privatisation or corporatisation of municipal services, deregulation within municipal boundaries, and flexible by-laws must all be placed within the context of globalisation to ensure effective and informed responses and decisions.

Local governments are influenced by global trends.

## 4. APPROACHES TO LOCAL ECONOMIC DEVELOPMENT

In the past, South African municipalities generally adopted a traditional approach to LED that focused primarily on the packaging of subsidies, tax holidays, and free infrastructure or services intended to attract outside industry. Recently, however, a new approach to LED has emerged that highlights the mobilisation of internal resources, capacities and skills consistent with the sustainable development objective that government is now pursuing more aggressively. Municipalities adopt variations of this approach to LED, depending on their local contexts.

### 4.1 Aims of LED in South Africa

In South Africa the main aims of an LED approach are to:

- establish a job-creating economic growth path;
- embark upon sustainable rural development and urban renewal; and
- bring the poor and disadvantaged to the centre of development.

Whatever LED approaches municipalities in South Africa adopt, it is essential that the poorest members of society benefit.

#### 4.2 International approaches to LED

Local economic development must benefit the poorest members of society.

There have been numerous approaches to local economic development around the world. Each approach is based on particular assumptions about the local economy, and the impact and role of local authorities. These approaches are described in Table 1.

#### 4.3 Factors that influence the choice of LED approach

The kind of LED approach that is implemented in any area will depend on the conditions of that particular area as well as what has been inherited:

- *Local context:* Geographic and physical features beneficial to LED interventions and their significance sub-nationally, nationally and internationally.
- *Local economy and employment structure:* Nature and character of the local economy including employment base, dominant economic sectors (agricultural, formal, industrialised, etc.), levels of flexibility and diversification, support mechanisms, entrepreneurial climate.
- *Local population and labour market:* Demographic trends, incomes, quality of life, cultural characteristics, etc. Relationship between sectoral policy, labour market policies, social affairs and education policies.
- *Possibilities for partnerships:* Key role-players from civil society, government, labour and business in the area. Relationship between these players and possibility for fostering partnerships. Vertical relationships between local, regional and national government.

Table 1: International approaches to local economic development

Approach	Method	Rationale	Concessions	Where applied
Traditional	Industrial recruitment (can include promoting investment in tourism, and from government and financial institutions).	Investment creates jobs and provides taxes, which can be used for service provision.	Marketing, tax breaks, cheap land, reduced rates, cheap loans, direct cash payments to attract (mainly manufacturing) investment in the area.	Port Elizabeth, 1937. Most US cities in 1950s and 1960s.
Urban Efficiency	Municipalities should raise urban productivity partly by lowering the costs of living, investing in infrastructure, services and conducting business locally.	Private investment creates jobs and wealth, and requires cheap inputs; so reduces costs by lowering taxes and improving business services.	Tax breaks, transport infrastructure.	US cities in 1980s.
Entrepreneurial and Sectoral	Identify and support the winner sectors in the local economy and invest in sunrise sectors (often high-tech sectors).	Invest in emerging high-tech industries to be able to compete in the global economy. Traditional industries are declining while high-tech sectors are growing.	Municipalities play an active role in identifying actual or potential growth sectors, nurturing new industries and directly supporting SMMEs through research, loans, grants, consultancy and the formation of Public-Private Partnerships (PPPs).	Italy's Industrial Districts, Silicon Valley, Welsh Development Agency.
Progressive - Competitive	Support industries that show potential for maximising local social benefits. (Key focus is the development of human resources, as poor people need to have appropriate skills if they are to benefit from the creation of new jobs.)	Support for emerging industries, but strategic intervention should be aimed at developing sectors that create the right kind of jobs for the poorest people. (Companies can be required to provide training for employees.)	Sectoral research and targeting, SMME support, research and development, focused training and placement for the poor (establish local training bodies or national training agencies in area), Public-Private-Community Partnerships (PPCPs).	Sheffield, Greater London Council.
Progressive - Community Based	Strategies emphasise the importance of working directly with low-income communities and their organisations.	Acknowledging growth sectors can exacerbate divide between rich and poor. Need to ensure economic benefits are more equitably distributed. The community to be involved in conceptualising, implementing and monitoring projects.	Planning permission in profitable areas is linked to investment in poorer areas. Support for Community Development Trusts and worker/community controlled businesses, "living wage" policies, developed with business and labour.	Boston, Chicago, San Francisco (linkage).  Many US cities (living wage).
Radical Redistributive and Socialist	Direct intervention to equalise wealth.	Government intervenes - controls economy to ensure more equitable distribution of income.	State control over key economic sectors; local profit taxes.	Liverpool in early 1970s.

(Source: Department of Provincial and Local Government, 2001)

## 5. ROLE OF LOCAL GOVERNMENT IN LED

The South African government faces major social, political and economic challenges as a result of the following:

- the political transition to democracy;
- the influence of apartheid on the geography of the country;
- the increasing demand on municipalities to deliver services;
- a much tighter control over how government money is spent;
- lower than expected macroeconomic growth;
- rising unemployment; and
- a variety of demands associated with “globalisation” of direct investment, trade and financial flows.

Unemployment and poverty alleviation remain the two greatest challenges facing government. Nearly half of all South Africans (18 million) live below the poverty line. Millions of people are living in informal settlements without basic services.

The two greatest challenges for the South African government are unemployment and poverty alleviation.

Development in the past was done “to and for people”. The relationship between communities, individuals and government during the development process was mainly one of dependence. More recent approaches to LED emphasise that development must take place “with and by people”. These approaches concentrate on the mobilisation of internal resources, capacities and skills. They concentrate on the importance of forging partnerships in order to identify and implement innovative and collective solutions.

The creation of jobs, the building of networked communities and a strong economy are important for all the people of South Africa. The government is committed to local economic development as it is one of the programmes through which communities can mobilise and empower themselves.

## 6. LINKING LED TO INTEGRATED DEVELOPMENT PLANNING

### 6.1 Integrated Development Planning

Integrated development planning (IDP) is a process through which a municipality prepares a strategic development plan. It draws together all the development objectives of a municipality, including local economic development, and develops

strategies to enable those objectives to be formulated in an integrated way. *This means that everyone is working towards the same goal.*

The IDP is a comprehensive plan for the development of the local area. It includes a long-term vision, an assessment of the existing level of social and economic development, development priorities, development objectives, spatial framework, land development objectives, operational strategies, municipal budgeting and other resource allocation realities.

The IDP is becoming  
the basic unit of  
government planning.

By drawing together the development objectives, priorities, strategies and budgets in this way, the IDP helps to ensure co-ordination between LED and other initiatives of government. The IDP is now the basic unit of planning for government as a whole.

The LED Regeneration Study forms part of the IDP. The LED toolkit should be used for the preliminary steps of the IDP, which include:

- the assessment of the current situation in the municipal area;
- the assessment of the needs of the community; and
- the prioritisation of needs and the setting of goals to meet those needs.

It is important to note that the *IDP process is a single, inclusive planning process* within which other processes must be located. LED must be fully integrated within the IDP. Indeed, if a municipality is being developmental and responding to local development problems, then it needs to establish a clear vision and objectives that tackle these issues. For example, poverty and unemployment remain the key challenges facing municipalities in South Africa. IDP objectives need to include targets for meeting these challenges. LED strategies can then be used to assist to meeting the objectives. The entire working of the municipality will need to become more integrated and more focused on developmental outcomes.

## 6.2 The legal status of IDP

The Municipal Systems Act (MSA) of 2000 provides municipalities with a legal framework in which to plan for integrated development. *The MSA requires every council to prepare its own IDP, which will guide it for five years.* This means that the integrated development plan is linked to the term of office of the elected council. The newly-elected council can adopt the IDP of its predecessor should it feel appropriate to do so, or it can develop a new IDP (taking the existing documents into consideration). *The form and content of an IDP document are largely subject to the discretion of the municipality, with the exception of those contents prescribed by the MSA.*

### 6.3 The IDP process

The first step in the planning process is the drawing up of an *IDP process plan*. This will ensure the proper management of the planning process, and requires close co-ordination between those responsible for the IDP and those responsible for the LED in a municipality.

The district council, in consultation with its local municipalities, must adopt a *framework for integrated development planning*. The framework:

- determines procedures for co-ordination, consultation and alignment between the district and the local municipalities, and therefore binds them both;
- guides each local municipality in preparing the process plan;
- includes a time schedule for the planning process;
- defines roles and responsibilities; and
- states how the process will be monitored.

Integrated development planning is an interactive process.

Integrated development planning is an interactive and participatory process. The municipality must therefore allow and encourage public participation. It must facilitate consensus around the vision of the LED within the locality and within any network or linkages that are promoted.

Due to the participatory nature of the IDP process, it takes a municipality approximately six to nine months to complete an IDP; this timing is closely related to the municipality budget cycle. During this period, delivery and development continue. The IDP is reviewed annually, which could result in amendments to the IDP.

### 6.4 Who is responsible for managing the IDP process?

Because integrated development planning is a mechanism to manage the affairs of the municipality and the municipal area, it holds a very high status in the municipality. In terms of the Municipal Systems Act, the Executive Committee or Executive Mayor has the responsibility to manage the preparation of the IDP or to assign this responsibility to the municipal manager. In most municipalities an IDP co-ordinator, linked and reporting directly to the office of the municipal manager and the Executive Committee or Mayor, is appointed to manage the process.

Preparing an IDP is a legal requirement of the MSA, and the responsibility to prepare and adopt an IDP lies with municipalities. However, this is not the only reason why municipalities must prepare the plans. Under the new Constitution, municipalities have been awarded major development responsibilities to ensure

that the quality of life for the citizens is improved. The new role of local government includes the provision of basic services, creation of jobs, promoting democracy and accountability, and the eradication of poverty. Preparing an IDP, therefore, enables the municipality to be able to manage the process of fulfilling its developmental responsibilities.

## 6.5 Institutional arrangement and capacities

The elected council is the ultimate decision-making forum regarding IDP, but the process is participatory in nature and requires input from various role-players. For this reason, the municipality must adopt an appropriate approach and also put in place appropriate structures to ensure effective participation by all stakeholders.

Integrated development planning is an inter-governmental system of planning, which requires involvement of all three spheres of government. Some contributions have to be made by provincial and national government to assist municipal planning. This promotes intergovernmental co-ordination by facilitating a system of communication and co-ordination between local, provincial and national spheres of government.

The Metro, the local municipality and the district municipality need to prepare and adopt an IDP. The district municipality must also provide support to poorly capacitated local municipalities and facilitate the compilation of a framework which will ensure co-ordination and alignment between local municipalities and the district. District Councils play a key role in the co-ordination of the IDP process, and can facilitate the development of appropriate regional LED strategies through the IDP process. The District Council can access technical and financial support from national and provincial government, as well as from regional developmental institutions.

The provincial Department of Local Government is responsible for:

- co-ordinating training;
- providing financial support;
- offering general IDP guidance; and
- monitoring the process in the province.

The province is also responsible for facilitating co-ordination and alignment between district municipalities, including facilitating resolutions of disputes between the municipalities. The province is also responsible for assessing IDPs and facilitating the alignment of IDPs with sector department policies, programmes and budgets. The various sector departments must provide relevant information on their policies, programmes and budgets. They need to contribute sector exper-

Each of the three spheres of government has a role to play in integrated development planning.

tise and technical knowledge to the formulation of municipal policies and strategies. They must be guided by the municipality's IDP in the allocation of resources at the local level.

The national Department of Provincial and Local Government (DPLG) must issue legislation and policy in support of IDP, including IDP guidelines. It is responsible for providing financial assistance and a national training framework. It is the DPLG's responsibility to *establish a Planning and Implementation Management Support System*.

## 6.6 Public participation

Many of the new municipalities are too large to allow the direct participation of all residents in complex planning processes. Participation and integrated development planning, therefore, needs clear rules and procedures specifying who is to participate or to be consulted, on behalf of whom, on which issue, through which organisational mechanism, with what effect. All municipalities must promote public participation, but they also need to *create the conditions* for public participation, which should be done with regard to disadvantaged or marginalised groups in accordance with the conditions and capacities in a municipality.

Municipalities  
must create the  
conditions  
for public  
participation.

Public participation has to be institutionalised in order to ensure that all residents of the country have an equal right to participate. The way public participation is institutionalised and structured has to provide sufficient room for diversity, that is, for different styles and cultures. Institutionalising participation means setting clear minimum requirements for participation procedures which apply for all municipalities by means of regulations, and providing a legally recognised framework.

## 6.7 Benefits for different stakeholders

The IDP also provides specific benefits for different groups:

- It enables a municipality to obtain access to development resources and outside investment.
- It provides clear and accountable leadership.
- It provides the development direction.
- It is a basis for monitoring the performance of officials.

Councillors have to play a leading role in the IDP process. They must:

- make decisions;
- see that the needs and aspirations of their constituencies are dealt with;
- communicate with constituencies through the IDP;
- represent their constituencies effectively by making informed decisions; and
- measure their own performance.

The IDP provides municipal officials with a mechanism to communicate with the councillors. It allows the officials to contribute to the municipality's vision and to be part of the decision-making process. Everything that all departments do has to be guided by the IDP. As a result, all departments have to get involved in the integrated development planning process.

The IDP is about determining the stakeholder and community needs and priorities which need to be addressed in order to contribute to the improvement of the quality of life. The IDP gives the community an opportunity to inform the council about their development needs. This gives them an opportunity to determine the municipality's development direction and provides a mechanism through which to communicate with their councillors and the government body. Community and stakeholder participation in determining those needs is at the heart of the IDP process.

The IDP process informs the council about what is needed to improve the quality of life in its community.

The Constitution and the Municipal Systems Act clearly stipulate that the municipality must enable the involvement and commitment of its stakeholders by establishing an effective participatory process. In the case of stakeholder groups that are not organised, NGOs or other resource persons play a critical role to advocate the interests of these groups. The nature of the IDP process is, therefore, such that it allows all stakeholders who reside or conduct business within a municipal area to contribute to the preparation and implementation of the development plan. By abstaining from participation, stakeholders empower other people to make decisions on their behalf – decisions that might not be in their interest.

A significant amount of financial resources for the implementation of projects lie with sector departments. The availability of the IDP provides guidance to the various sector departments as to where their services are required and hence where to allocate resources at local government level. It is in the interest of sector departments to participate in the IDP process to ensure that there is alignment between its programmes and that of municipalities.

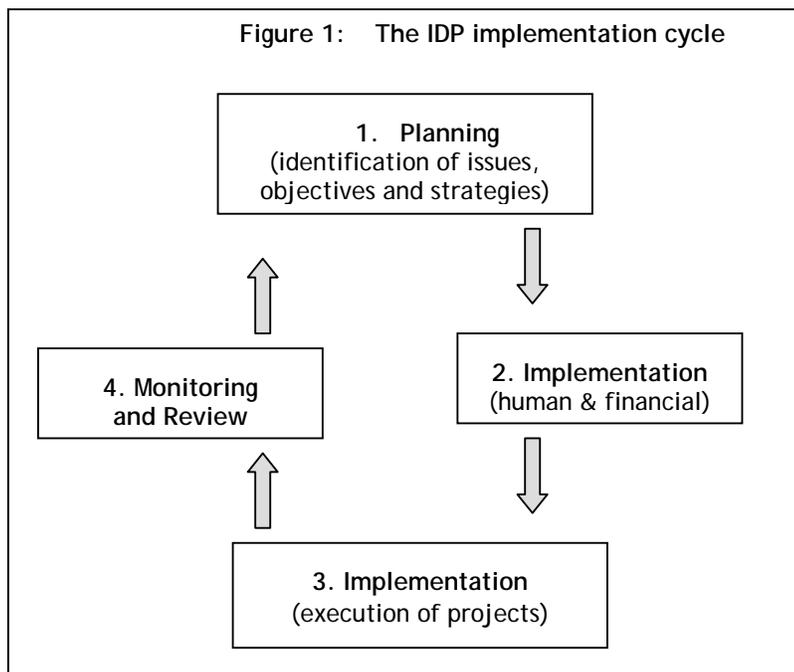
The IDP serves as a guide to the private sector in making decisions about areas and sectors in which to invest. In the absence of an IDP, a municipality might act in an *ad hoc*, uninformed and unco-ordinated manner which could lead to duplication and wastage of limited resources. Furthermore, the lack of a municipal tool to guide development could result in other spheres of government imposing their development programmes, which might not be a priority for a municipal area.

## 6.8 IDP implementation cycle

IDP implementation generally occurs in a cycle, which is made up of four stages:

- planning;
- allocation and commitment of resources;
- implementation; and
- monitoring and review.

These are presented in Figure 1.



During the planning stage, performance indicators are formulated to monitor implementation and its impact. The outcome of monitoring sometimes results in the adjustment of the plan and implementation programme.

## 6.9 Completed IDP

Once the IDP has been completed, it has to be submitted to the municipal council for consideration and approval. The council must look at whether the IDP identifies the issues that affect the area and the extent to which the strategies and projects will contribute to addressing the problems. It must also

make sure that the IDP complies with legal requirements before it is approved. Before the approval of the IDP, the municipality must give an opportunity to the public to comment on the draft. Once the IDP is amended according to the input from the public, the council considers its approval.

Once a municipality has adopted its IDP, it must submit a copy together with the “process plan” and the “framework for the IDP” to the MEC for assessment. The MSA does not require the MEC to approve the IDP, only to assess whether or not the IDP complies with the requirements of the Act and that it is not in conflict with IDPs and strategies of other municipalities and organs of state.

## 6.10 Advantages of an IDP

An integrated development plan has several advantages. These are outlined below:

- Through the IDP, the municipality is informed about the problems affecting its municipal area and, being guided by information on available resources, is able to *develop and implement appropriate strategies and projects to address the problems.*
- An IDP helps municipalities to make more *effective use of scarce resources.* The municipality can focus on identified and prioritised local needs, taking local resources into consideration.
- This enables them to *search for more effective solutions* by addressing causes, rather than just allocating capital expenditure for dealing with symptoms.
- The IDP helps to *speed up delivery* by providing a tool which guides where investment should occur.
- It encourages public participation and offers *decision-making mechanisms* that will arrive at realistic project proposals, taking into consideration the limited resources.
- Where there is a clear municipal development plan, private investors and sector departments are *more willing to invest their money.*
- The IDP will strengthen democracy and institutional transformation through *transparency and inclusiveness.* It engages various socio-economic groups where people live and work.
- It facilitates the redistribution of resources in a consultative process.

Ultimately, the IDP process strengthens democracy.

## PART B: JOB CREATION

### 7. INTRODUCTION

With regard to economic development and job creation at local government level, President Thabo Mbeki in his State of the Nation Address on 9 February 2001 expressed his commitment and faith in the new structure of local government, both in rural and urban areas. The success of co-ordinated implementation of programmes, he said, “should have a positive impact on such areas as job creation, crime and violence, health and the general quality of life of millions of our people

who lead desperate lives.” He also committed government’s continued consultation aimed at reforming the labour market, as well as investigations into the feasibility of reducing the cost of labour without reducing workers’ wages.

The investment in economic infrastructure – totalling R6 billion at the time – is prioritised to support:

- high-growth areas;
- the integrated rural development strategy; and
- the urban renewal programme.

President Mbeki also said that though it is taking longer than planned to implement many of the integrated government plans, individual departments and spheres of government have continued with their own programmes with regard to urban renewal and integrated rural development. “For example, investments totalling more than R3 billion have been made through the Consolidated Municipal Infrastructure Programme over the last three years, with 47% spent in rural areas and 53% in the urban areas,” he said.

At the time, President Mbeki indicated that the success of such an integrated action is greatly reliant on the impact it will have on key performance areas such as economic growth rates, employment levels, competitiveness, black economic empowerment and small business development.

In his speech President Mbeki highlighted the nodal points that have been identified for both the urban renewal strategy as well as integrated rural development. The following rural areas were identified:

- the O.R. Tambo, North East, Ukhahlamaba and E.G. Kei District Municipalities in Eastern Cape;
- the Umzinyathi, Umkhanayakude, Ugu and Zululand District Municipalities in KwaZulu-Natal;
- the Kgalagadi Cross Boundary District Municipality in Northern Cape and North West;
- the Central Karoo District Municipality in Western Cape;
- the Sekhukhune Cross Boundary District Municipality in Mpumalanga and Northern Province;
- the Eastern District Municipality in Northern Province; and
- the Qwaqwa District Municipality in Free State.

With regard to the Urban Renewal Programme, the areas identified included:

- Khayelitsha and Mitchells Plain in Western Cape;

- KwaMashu and Inanda in KwaZulu-Natal;
- Mdantsane and Motherwell in Eastern Cape;
- Alexandra Township in Gauteng; and
- Galeshewe in Northern Cape.

## 8. URBAN RENEWAL STRATEGY

Over 60% of the South African population reside in urban areas. This number increases every year, as more and more rural people turn to the urban areas for job opportunities and better quality of life. However, urban population growth outpaces urban economic growth, resulting in worsening living standards for the poor, a widening gap in income levels and further marginalisation of the urban poor.

Rapid urban growth often means a widening income gap.

The economic development of urban areas has given rise to towns and cities whose physical profile reflects class divisions. This is simply because the physical profile of cities is shaped by property values and real estate development. Property demand and property prices correlate to income levels. In South Africa and in many other countries this correlation relates to race as well.

## 9. INTEGRATED SUSTAINABLE RURAL DEVELOPMENT STRATEGY

The vision for an Integrated Sustainable Rural Development Strategy (ISRDS) was released by the Office of the Deputy President. The stated vision of the ISRDS is “to attain socially cohesive and stable communities with viable, sustainable economies and universal access to social amenities, able to attract skilled and knowledgeable people, equipped to contribute to their own and the nation's growth and development.”

This vision has specific implications for local government and local councillors. The ISRDS emphasises the importance of people's full involvement and ownership of development. People need to be mobilised not just to benefit from projects, but to be active participants in projects. “The rural person should be a patriot who understands the importance of their contribution to developing the nation and improving the lives of their families and communities” (Umrabulo, Marc Wegerif).

Key elements of the ISRDS are rural development, sustainability, integration, economic growth and a rural safety net. Rural development is seen as multi-dimensional, covering all sectors and aspects of the life of a community. Ulti-

Sustainable development requires commitment and good planning.

mately it must transform economic, social and political relations to enable rural people to end their poverty and improve their own lives.

Sustainability requires growth, people's commitment and ability to support activities, sound environmental practice, and institutionalisation of development activities, particularly at the local government level. Integration of programmes around a common vision is seen as essential to the success of rural development. To be achieved, it needs a clear strategy from the vision to the mechanisms for planning and co-ordination, especially of finances.

## 10. PILOT PROJECTS/PROGRAMMES

### 10.1 Department of Trade and Industry

The primary role of the Department of Trade and Industry (DTI) is to facilitate access to sustainable economic activity and employment for all South Africans. The processes to achieve this vision involve several key objectives:

- attract higher levels of domestic and foreign investment;
- increase market access to foreign investment; and
- achieve a fair, efficient and competitive marketplace for domestic and foreign businesses and consumers.

These processes must lead to specific outcomes, of which the most important are:

- promoting the development of small, medium and micro enterprises (SMMEs);
- increasing opportunity for black economic empowerment;
- reducing inequality and poverty;
- strengthening the international competitiveness of South African business;
- developing the SADC region; and
- servicing the economic citizen.

## 10.2 Industrial Development Corporation

The Industrial Development Corporation (IDC) has identified two main themes to improve the targeting of its work:

- improving current IDC operations by:
  - streamlining and simplifying procedures in processing applications, especially in the industrial financing and entrepreneurial development divisions;
  - extending its reach, especially to emerging entrepreneurs and specifically to:
    - the scheme to facilitate takeovers and acquisitions;
    - the wholesale finance scheme;
    - the low interest rate empowerment scheme;
    - the consortiums finance scheme; and
    - the fishing finance scheme;
- supplementing existing financing products by taking proactive steps to encourage midi-projects and to strengthen the competitiveness of industry clusters.

Projects being considered include agri-industries development, tourism, and large resource-based projects. Special projects to be supported by IDC include:

- administration of some government job creation schemes;
- promoting sustainable economic activities linked to Seeps; and
- forging partnerships with the private sector in special job schemes.

## 10.3 The Independent Development Trust

The Independent Development Trust (IDT) supports the following programmes:

- capacity building and enhancement of local authorities, non-governmental organisations and community-based organisations;
- local economic planning and development initiatives;
- programme management for community-based programmes;
- programmes and initiatives aimed at increasing the participation of women, youth, and the disabled;
- programmes aimed at rural communities;

- programmes directed at SMME support; and
- programmes promoting community-private partnerships.

#### 10.4 SMME development

SMMEs have a major role to play in the economic development of South Africa.

As spelled out in the President's Opening of Parliament Address, government is taking specific steps to attend to the challenge of promoting small, medium and micro enterprises.

Many small business development initiatives are being undertaken by national government departments, as well as by provincial and local governments. To be effective, these activities must be co-ordinated. In a speech to the National Council of Provinces, Minister of Trade and Industry Alec Erwin said,

*In future, SMME development activities are going to form an integral part of all industrial development initiatives throughout the department and the Department of Trade and Industry Group. ... In order to ensure that economic citizens get maximum benefits and service delivery from the DTI Group as a whole, we created a new structure in May 2000, the Council of Trade and Industry Institutions or COTII. One of COTII's key areas of work is looking at how the members of COTII can work together to improve the effectiveness of small business delivery. This will ensure that SMME development does not become isolated from mainstream industrial development strategies.*

In an effort to clarify the role of various role-players in this sector, the DTI is planning to release a revised policy paper on small business. This will provide an update to the 1995 White Paper on small business development. Legislation to give effect to the policy recommendations will be introduced later this year.

One of the most important recommendations to emerge out of this policy review will be a proposal that a National Small Business Advisory Forum should be established. The Advisory Forum would provide a structured opportunity for ongoing interaction between the Department, the Minister and the small business community. It would allow small business to engage government at the highest level, which in effect brings those at grassroots level directly in contact with government.

In the same speech Minister Erwin also said that at a programme level the focus will be on the following four areas:

- the creation of new enterprises in the particular growth sectors identified in the President's State of the nation address;
- improving access to finance;

- introducing a company partnership programme to link large corporations to small businesses through procurement; and
- concentrating on the creation of new small enterprises in the newly-designated industrial development zones (IDZs), SDIs, rural nodes, and urban upgrade areas.

### 10.5 Small and Medium Enterprise Development Programme

The Department of Trade and Industry has established a Small and Medium Enterprise Development Programme (SMEDP). Its objective is to create wealth, generate employment, develop entrepreneurship, promote empowerment, utilise local raw material, ensure long-term sustainability of projects receiving incentives, and reduce investment loss for small and medium investors.

The programme is available countrywide to local and foreign firms investing not more than R100 million in land, buildings, plant and equipment in new projects or the expansion of existing projects. Applications may be made by legal entities as well as sole proprietors and partnerships (excluding Trusts) engaged in qualifying manufacturing, high value agricultural projects and agro-processing, aquaculture, biotechnology, tourism information and communication technology investments, recycling, culture industry and business service.

The incentive package provides for an investment grant for two years on approved qualifying assets calculated as follows:

- first R5m investment - 10% per annum;
- next R10m investment - 6% per annum;
- next R15m investment - 4% per annum;
- next R20m investment - 3% per annum;
- next R25m investment - 2% per annum; and
- next R25m investment - 1% per annum.

An additional investment payable in the third year – based on the ratio of human resource remuneration expressed in terms of manufacturing cost – must be a minimum of 30%.

## 11. POVERTY ALLEVIATION FUND

A Poverty Alleviation Fund has been made available by the National Treasury. Minister of Finance Trevor Manuel, in his Budget Speech on 21 February 2001, outlined the expenditure policy objectives for the 2001 medium term in conjunction with government's aim for balancing a number of broad policy objectives, which include:

- economic growth;
- job creation;
- equity and social development; and
- strengthening the safety and justice sector.

The government is developing mechanisms to provide economic opportunities to poor communities.

In promoting economic growth and employment, Manuel said that by setting aside substantial supplementary resources for infrastructure, investment and maintenance, government and the Treasury sought to broaden access to opportunities, and to lower the costs of transport and communication. All these factors would have a direct influence on the standard of living in poor communities. "In implementing this investment programme," he said, "government will also contribute directly to the creation of jobs."

In addition, R1.5 billion a year has been allocated to a range of targeted poverty relief programmes, many of which contribute to employment and construction in support of local economic development. The Minister also said that government's rural development, land reform and agricultural policies were designed to reduce rural poverty by supporting access to land, investing in rural infrastructure and broadening access to markets.

*Poverty reduction priorities are evident in the provision of resources to subsidise basic services. Funds for low cost housing and subsidisation of public transport reduce the costs of these household requirements. Government's approach to financing local government and pricing of basic services recognises that some municipal services should be available to poor households free of charge.*

## 12. CASE STUDIES

### 12.1 Ntsika

Ntsika's Finances' mission statement is rooted in the efficient and effective promotion of support service to SMMEs in order to contribute towards equitable economic growth in South Africa. Ntsika Finances was set up under the auspices of the Department of Trade and Industry to help entrepreneur development and training, and to provide technical assistance and support for medium-sized enterprises. Khula Investments provides wholesale commercial financing, especially to SMMEs. However, this strategy has not achieved its full potential, with only 2 700 finance applications being approved by February 1999.

Ntsika was established to assist and train new entrepreneurs.

Ntsika has several projects, including the following:

- **Local Business Service Centres:** The Local Business Service Centre (LBSC) programme is a key programme for the promotion of SMMEs across South Africa. The programme provides a nation-wide infrastructure on which programme partnerships between government, local communities, and the private sector can be formed to realise the goals and objectives of the national strategy for the development and promotion of small business in South Africa.
- **Tender Advice Centre Programme:** The Tender Advice Centre (TAC) programme focuses on small businesses (5 to 50 employees) in construction, manufacturing and services industries. The TAC provides services to both suppliers and buyers:
  - services to supplier companies:
    - information and advice on business opportunities and available tenders,
    - legislation and regulations affecting small businesses,
    - completion of tenders,
    - tender contract support,
    - sub-contracting,
    - market and product development,
    - organise specialised training programmes, and
    - project management;
  - services provided to buying companies:
    - provide information on small business suppliers,
    - assist to evaluate capacity of small business suppliers to deliver on contracts, and
    - facilitate buyer-supplier workshops.

- Trade and Investment Development Programme: The Trade and Investment Development Programme (TIDP) is designed to help small businesses in South Africa to develop their ability to compete in the international market-place. The programme is divided into three Tracks:
  - *Track One* will help businesses which need advice and training pertaining to competing in the international market place.
  - *Track Two* assists selected businesses with product and market development issues to enable the firm to maximise its export opportunities.
  - *Track Three* is an international partnership programme designed to facilitate partnerships and business opportunities between South African SMMEs and their European Union counterparts.

## 12.2 SCMB: black economic empowerment and upliftment

Ever since the start of what is now called black economic empowerment in the 1990s, Standard Corporate and Merchant Bank (SCMB) has been at the forefront of developing and supporting the initiative, and continues to play a leading role.

Some of the leading empowerment groups – including Real Africa Holdings, New Africa Investments and Worldwide African Investment Holdings – have their origins closely tied to advice and financing from SCMB. In 1999, SCMB's Investment Banking Group (IBG) advised on the listing of black-controlled companies such as Women Investment Portfolio Holdings, Union Alliance Media and Sekunjalo Investments. It has also been instrumental in advising M-Cell, Omni Media Corporation and Johnnic on restructuring and various acquisitions, and raised R600m to fund the purchase by various black empowerment groups of 5% of MTN from Johnnic (South Africa's leading black economic empowerment telecommunications, media and technology player). SCMB has so far invested more than R1bn in empowerment transactions and black-controlled companies.

SCMB's Corporate Banking established the Gauteng Provincial Government RDP Fund in April 1998, stemming from the bank's tender commitment with the provincial government. The fund invests in community development projects identified jointly by the bank and provincial government.

Project Finance sponsored the overseas study tour for Greater Johannesburg Metropolitan Council senior officials in support of the council's iGoli 2002 plan. It is advisor to the council on the privatisation of the Johannesburg Fresh Produce Market. It also supports local government officials through training programmes with the Institute for Private-Public Partnerships, based in Washington.

Project Finance is joint sponsor with Rand Water to the National Business Initiative – a non-profit, business-based, public-interest organisation that assists business to contribute to the critical areas of skills provision, housing delivery, job

Black economic empowerment processes have been attracting increasing funding.

creation and the delivery of basic services. An amount of R1m has been made available to this initiative over five years.

Treasury's involvement in socio-economic activity includes being appointed co-arranger for the initial R2bn Telkom bond issue in November 1998, as well as the R1,5bn re-opening in July 1999. It has performed a number of hedging transactions for the Development Bank of South Africa, the Land Bank, Telkom, Transnet and TCTA. Treasury was also the marketing and education advisor on CPI bonds for the Department of Finance and, on another transaction, the bank was appointed as dealer for the government's US\$2bn RSA Euro Medium Term Note Programme.

### 13. CONCLUSION

The powers and functions of local government should be exercised in a way that has maximum impact on the social development of communities – in particular, meeting the basic needs of the poor – and on the growth of the local economy. Municipalities therefore need to have a clear vision for the local economy, and work in partnership with local business to maximise job creation and investment. Provision of basic household infrastructure is the central contribution made by local government to social and economic development (DPLG, 1998:18-19).

Local government can only successfully perform these responsibilities if it is given the necessary policy making and decision making powers to facilitate the implementation of workable programmes. Furthermore, it must build institutional capacity to mobilise and manage resources, and it must have recognition of its importance in this regard from national government.

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## Useful websites

[www.dti.gov.za](http://www.dti.gov.za)

[www.local.gov.za](http://www.local.gov.za)

[www.nbi.co.za](http://www.nbi.co.za)

## LIST OF ABBREVIATIONS

CBO	Community-Based Organisation
DTI	Department of Trade and Industry
GATT	General Agreement on Trade and Tariffs
IBG	Investment Banking Group
IDC	Industrial Development Corporation
IDP	Integrated Development Planning
IDT	Independent Development Trust
IDZ	Industrial Development Zone
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
ISRDS	Integrated Sustainable Rural Development Strategy
LBSC	Local Business Service Centre
LED	Local Economic Development
MNC	Multinational Corporation
MSA	Municipal Systems Act
NGO	Non-Governmental Organisation
SAP	Structural Adjustment Programme
SCMB	Standard Corporate and Merchant Bank
SMEDP	Small and Medium Economic Development Programme
SMME	Small, Medium and Micro Enterprises
TNC	Transnational Corporation
WTO	World Trade Organisation