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Importance of Local Champions in Reviving Local Economies

PROMOTION AND DEVELOPMENT OF SMALL BUSINESS IN SOUTH
AFRICA, COVID -19 AND BEYOND



Acknowledgements

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The SBI welcomes feedback on this research and the resulting suite of papers, which can be submitted to Ms Leandre Swart at leandre@smallbusinessinstitute.co.za

Research project undertaken for the Small Business Institute (SBI), funded by Exxaro – Conducted by research specialists SBP

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Table of Contents

Acknowledgements	2
Preface	4
Abbreviations	6
The importance of Local Champions in Reviving Local Economies	7
I. Introduction	7
II. Setting the Scene - The Realities	8
III. Reinvigorating small towns and localities– importance of local champions.....	19
IV. Key insights	20
V. Learning loops.....	24
Bibliography	28

Preface

Prior to Covid-19 micro, small and medium enterprises – we refer to all these businesses as SMEs for brevity – constituted by far the majority of businesses in South Africa. Over 98% of all employing firms in the country employed fewer than 250 people, including medium-sized businesses, and the majority of firms (66%) were, according to our research published in 2018, micro businesses with ten or fewer employees. While there is no reliable data to inform us of how many survived, we are certain that SMEs remain in the majority, as they are around the world, despite rising liquidations and distressing turnover numbers due to the impact of the Covid-19 pandemic and the lockdown measures to contain it.

And yet instead of seeing SMEs as the engine room of our economy despite all the lip service paid by government and big business to them, they are forever treated as an economic widget. Policy and regulations are made for big businesses with large compliance departments, years of much-documented hostility by government is directed at big business, sweeping all ‘business’ together in unhelpful generalisations; and though much ink has been spilled writing about an enabling environment, there has been insufficient understanding applied to what this should look like.

It is one year on since government introduced the lockdown measures to contain Covid-19. The Small Business Institute (SBI) with support from mining house Exxaro has undertaken research in a Covid-19 world to analyse the situational environment for SMEs in South Africa. Conducted by SME research specialists, SBP, we provide a deeper understanding of the key barriers affecting SMEs and propose a set of recommendations aimed at addressing these problems. Our suite of papers is built on a review of a vast array of decisive studies and an assessment of critical barriers affecting SME performance based on available evidence. South African SMEs face many structural barriers to their formation, growth and expansion. All businesses, especially SMEs were having a tough time of it before the appearance of the novel coronavirus pandemic. There will be no point to layering clever, forward-looking initiatives on top of a foundation that has impeded business growth for decades in South Africa.

While “the business of business is business” as Milton Friedman might say, the multiplier effects of business on a country’s development and prosperity for all its people are well documented. Business activity creates jobs, cultivates inter-firm linkages, enables innovation and technology transfer, builds human capital and physical infrastructure, generates tax revenues for governments, and, of course, offers a variety of products and services to consumers and other businesses. And it is in SMEs where the true spirit of enterprise is embodied. Under the right conditions, a vigorous and thriving SME community can enhance competition, entrepreneurship, job growth and spur economy-wide efficiency and innovation.

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Over the past year, an inordinate amount of energy and effort has been devoted to trying to formalise enterprises that are not caught up in the net. Any firm that sells a product or service contributes to our fiscus through the VAT tax they pay on inputs. All circulate money in the economy. One of the papers in our series has sifted through the rationale for formalisation and the pros and cons of the informal-formal continuum and where good policy to support *any* business along its journey to sustainability might focus. Another will clearly spell out what South Africa requires to truly enable businesses to start, run and grow, accommodating hiring along the way.

In this paper we discuss the shortfalls in policy, resources and governance that have led to the decay of small and rural towns across the breadth of South Africa. We offer a distinction between local economic development and a model that supports “inclusive localism” – a fresh approach to help refashion communities of tomorrow. We showcase two case studies that illustrate how local business chambers are helping to bring hope and economic revival back to their local towns. The results stemming from the case studies give a fascinating view of a whole range of real-life examples. For government and big business too, insights from the case studies address questions about how to optimise what can be done immediately and the important catalytic role that local champions play in harnessing people’s energies to help bring about positive change, especially in decaying small towns. Answers to these questions are fundamental in helping to rebuild local economies and businesses for the future in a world of new realities.

Abbreviations

ANC	African National Congress
CIPC	Companies and Intellectual Property Commission
COGTA	Co-operative Governance and Traditional Affairs
CSR	Corporate Social Responsibility
DDM	District Development Model
DPLG	Department Provincial and Local Government
DPME	Department of Planning, Monitoring and Evaluation
DSBD	Department of Small Business Development
EESE	Enabling Environment for Sustainable Enterprises
HIV	Human Immunodeficiency Viruses
IDP	Integrated Development Planning
ILO	International Labour Organisation
ISPESE	Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises
KCC	Kgetlengrivier Concerned Citizens
KLCBT	Kruger Lowveld Chamber of Business and Tourism
LED	Local Economic Development
MFMA	Municipal Finance Management Act
MPTA	Mpumalanga Tourism and Parks Agency
NPA	National Prosecuting Authority
SBI	Small Business Institute
SBP	Small Business Project
SME	Small and Medium Enterprise
SMME	Small, Medium and Micro Enterprise
VAT	Value Added Tax

The importance of Local Champions in Reviving Local Economies

I. Introduction

Is it possible to rethink how better to harness people's ideas and energies to help revive the towns and the local economies in which they live, for decades long neglected in South Africa? In his recent book 'The Third Pillar', former governor of India's central bank and political economist Raghuram Rajan puts forward a strong case for a new approach to refashion communities for tomorrow. He calls it "inclusive localism", an idea that involves empowering communities - which he terms as people around you who come together for local effort - to bring economic activity back to them.

Learning from history, Rajan suggests that serious imbalances occur when calamities like a pandemic or scientific or technological advances emerge, much like the technological revolution and coronavirus pandemic that the world is experiencing. The pandemic is seeing markets strengthening and so too are governments, what is being left behind is the third pillar, the community. An important truth about the social and economic consequences wrought by the coronavirus pandemic and by governments to contain it, is that people interpret what happens to them in the context of their own circumstances. We constantly debate government versus markets, lower regulation versus higher regulation and while all these issues are important, Rajan states, they are not the central concern of the average citizen. "It's about how we get the services and economic activities back to the places where they are disappearing and once you think about it that way, then the solutions revolve around the community".

There is agreement that for almost three decades, local economic development programmes and strategies in South Africa have had little success with rural and small towns being the most negatively affected. Looking at local economic development through the lens of "inclusive localism" provides for an approach to revive local economies; important for big businesses that strongly believe in empowering local communities and the towns in which they operate, and for local business chambers wanting to make a positive impact on the world around them.

Champions matter – a people centric approach

In this paper, we showcase positive initiatives in two localities, one in Mpumalanga and the other in the Free State. Driven by champions in their local business chambers and working in partnership with big business and local or district government, we track their journey in helping to bring hope and economic revival back to their local towns. The approach adopted by these champions is not about waiting for the toolbox to be fuller or wishing the tools were sharper but finding ways to optimise what can be done immediately with whatever resources are available to hand.

Bringing back pride and economic activity to decaying small towns takes time and persistent effort but doing so must be harnessed with impatience and the appetite to take every possible step forward. While the pandemic has brought devastating social and economic consequences to the world around us, the disruption has positively accelerated people coming together to muster the trust and mutual reliance to take little, and then bigger steps forward. The case studies give a fascinating view of a whole range of real-life examples happening in the two localities in South Africa. They demonstrate how local champions can catalyse positive change and help drive long term cumulative effects in their local economies.

II. Setting the Scene - The Realities

The insights that follow in this paper from our case study sites are within the context of several dynamics that have impeded local economies across the length and breadth of South Africa.

Municipal dysfunctionality: Local government is the sphere of government that is closest to people and responsible for the provision of basic services and related infrastructure. A “well-functioning” municipality is one characterised by stability, a functional council and oversight structures, with consistent spending of the capital budget, unqualified audit outcomes and good financial management. In 2018, Cogta identified

34% (87) of the 257 municipalities as dysfunctional and 64% (163) at risk of being dysfunctional. Only seven (2%) out of all the 257 municipalities in South Africa are functional.

Box 1: Residents in the North West given court's blessing to take matters into their own hands

When local government broke down, the people of Kgetlengrivier in the North West province rolled up their sleeves and did the work themselves. In a precedent-setting judgement in the North West High Court in December 2020, the judge ordered the imprisonment of the municipal manager for 90 days, suspended on condition that raw sewage spilling into the town's rivers be cleared up within 10 days. The judge also ordered that residents association Kgetlengrivier Concerned Citizens (KCC) be allowed to take control of the area's sewage works, to be paid for by the local and provincial governments. A further 90 days imprisonment was also handed down, suspended on condition that the municipal manager provides clear, potable water to the town's residents within 10 weeks of the ruling. The judge also ordered that residents in the town be given control of the area's water works so they could appoint qualified people to run it. All to be paid by local and provincial government. The result? "We've got beautiful, clear drinking water, and we've got more than we know what to do with it," said the head of the town's KCC association. "Local residents paid R7.5million out of their pockets, but we got the pumps repaired or replaced, we rented generators to make sure the water could continue pumping in the event of power outages, and we got the system back in full operation in a matter of weeks. People from every part of this community, regardless of race, were involved in this salvage operation. Many of the more affluent people in the community have joined this fight, they got involved because they wanted to ensure poorer members of the community who desperately need these services were able to survive. Everyone is fed up with the non-delivery by the municipality." The local government will have to pay the residents back their R7.5 million, plus their court costs.

Source: Moneyweb, 9 February 2021

"Community" has a definition problem: Much like the label "SMMEs" used in South Africa to lump together micro, small and medium enterprises as a homogenous *sector* when in fact they are a *segment of the economy* (SMEs are not uniform and they operate across all industrial sectors of an economy) so too is the misuse of the umbrella phrase "community" to describe anything that has to do with the collection of human beings, from the tangible to the very abstract.

... And a trust deficit: In the context of South Africa, the term "community" invokes a separatist connotation, often implying an "us or them" perspective – a legacy of apartheid. The psychological overhang caused by decades of apartheid-era segregation still appears indelible in the psyche of many South Africans who still subscribe to an "in group" and "out group" mentality (Nadvi, 2017). This manifests in local community disunity, a trust deficit where people are reluctant to support neither their own kind

nor 'outsiders'. The latter often resulting in xenophobic attacks against 'foreigners' and foreign-owned businesses. In addition, the politicisation by the governing party, the ANC and other political groups, of local government and 'cadre deployment' coupled with political infighting in local governance has led to the collapse of many basic services that local communities are dependent on for their daily existence. This has led to widespread and violent protests demanding 'better service delivery' especially in small towns and rural areas, which in turn provides an impetus in politicising local communities (Reddy, 2016).

The traditional definition of "community" is mostly based on shared location such as "a group of people living in the same place" but this misses a key piece in modern forms of communities which involves "a feeling of fellowship with others, as a result of sharing common attitudes, interests and goals". But this too is broad and vague since common attitudes, interests and goals shared with other people don't necessarily result in a sense of community. For that to happen, community requires relationships. In so many ways traditional definitions of the term community is missing out on the true power that "real" communities have. When people care about each other, they develop trust and trust unlocks collaboration, sharing, support, hope, safety and much more. Communities optimise for trust while most organisations and governments in the world optimise performance towards external goals. There is a need to update and rethink what "community" means in today's world and to find different ways to differentiate between different kinds of communities to help to refashion the "communities of tomorrow" that Raghuram Rajan discusses in his book 'The Third Pillar'.

Failure of Local Economic Development in South Africa:

For almost three decades, local economic development (LED) has been promoted as a core function of South Africa's 'developmental local government'. While definitions differ about what LED means, the general consensus is to build up the economic capacity of a local area to improve its economic future and the quality of life for all (World Bank, 2016). Aligned with this, LED has been embedded in legislation in South Africa since the mid-1990s. The Constitution, the White Paper on Local Government, the National Framework for Local Economic Development and the Municipal Act all place considerable emphasis as a means to 'creating robust and inclusive local economies that exploit local opportunities, address local needs and contribute to national development objectives such as economic growth and poverty eradication' (DPLG,2005:10). Despite this, there is agreement that local economic strategies and

programmes in South Africa have had minimal success with small towns and rural areas bearing the brunt. Municipalities struggle to put in place good LED strategies and policies to fulfil the policy defined goals of a 'developmental local government' despite the fact that local economic development has been a major local government activity since the advent of South Africa's democracy.

Research into LED practices, particularly in developing countries, is beginning to pinpoint inherent reasons for failure of local economic development initiatives, which are pertinent to South Africa's own experience. Aside reasons which relate to the impact of globalisation and decentralisation policies practised elsewhere in the world, intrinsic problems with LED include:

- *A strategy and planning-driven approach to LED.* Local economic development is driven by local authorities – the majority of which in South Africa are weak and dysfunctional - as a public task that involves planning and strategy. In the majority of cases LED strategies are developed by consultants/outsideers or worse, are found to be cut-and-paste copies of other municipal LED plans. There is usually nothing that prepares public servants, particularly in weak local government structures, to construct adequate terms of reference for external experts. It is much like dictating rules for a game you have never played. LED activities form part of several-year plans and presuppose lots of institutions and capacity-building before anything practical happens. Learning from action and experimentation is not in the mind set of government officials; action-based, opportunity-driven and flexible ways of approaching problems and dealing with them comes naturally to business but is alien to public servants. Furthermore, LED has to some extent been shaped by concepts of strategic development planning, integrated regional rural development planning, strategic industrial policy, all of which reinforces the strategy driven method to LED rather than a bottom-up, action-driven approach.
- *Mixing agendas: policy confusion between LED and Community Development.* As noted, LED has been a major political imperative of the governing party in South Africa for decades. From the central government department perspective, important objectives for LED include job creation, sustainable urban and rural development with explicit pro-poor approaches and redistributive, meeting - first and foremost - the needs of the poor, women, children and people living with disabilities and HIV. This means amalgamating employment policy, urban development policy, rural development policy and health policy (amongst others).

Yet the “E” in Local *Economic* Development is missing. LED is about creating favourable conditions for business and investment and alleviating local market failure. It is worth repeating as we note above, the primary policy direction for LED in South Africa is about: ‘creating robust and inclusive local economies that exploit local opportunities, address local needs and contribute to national development objectives such as *economic* growth and [subsequentially] poverty eradication’. The confusion caused by merging policy objectives for economic development with objectives for social development results in neither economic nor social objectives being met. Community *involvement* in LED activities is important and desired. But it is distinct from *community development*, which is effectively social policy with objectives, target groups and incentives that are different from those of LED, which is clearly business driven. A review of a sample of job descriptions for LED officers nearly all mention fostering the right environment for SMEs, finding and promoting public-private partnerships and attracting new businesses to the localities. Yet several municipalities often fail even to employ an LED officer

- *Enabling business – not substituting for it.* Facilitating and creating an enabling environment for business to prosper and thrive is one of the key drivers for local economic development. Local government is often overlooked as a critical enabler for microeconomic reforms designed to influence decisions of businesspeople to invest in the local economy, stimulate innovation and create jobs. While the private sector creates jobs and drives economic growth, government sets the conditions in which this can happen. Important factors for local government in facilitating an enabling environment include reducing regulatory barriers, improving basic services and local infrastructure and ensuring good governance with an efficient and transparent administration, all to help ease the movement of a product or service along its value chain. However, as we have noted, municipalities seldom integrate their economic development strategies with their planning and regulatory functions, which results in a disjointed approach to business development and curtails local (and foreign) investment.

Faced with decaying small towns almost everywhere across South Africa, and an economy in crisis with rising unemployment and poverty, government (all spheres) continues to disregard economic growth as a priority in favour of continuing a ‘developmental state’ approach; deeply entrenching the confusion between economic development and social development (as noted above). While at the same time as creating layers upon layers of regulation that create more and more obstacles for business and producing disjointed policy, government pursues top-down, paternalistic programmes

and grants to the unemployed and unskilled people for business and cooperative start-ups, which have little chance of success or being productive. Essentially, this translates to ‘forced entrepreneurship’. Such ‘necessity’ entrepreneurs are pushed into entrepreneurship as a survival strategy in the absence of an alternative means of livelihood (DPME, 2017). The problem with such top-down government-driven projects is that they are often more destructive than creative. Top-down programmes and grants seldom create viable businesses; the issue of sustainability is not considered by officials who have little sense or understanding of business. At the local level they usually create overtrading, resulting in anger and frustration amongst beneficiaries of these programmes. Programmes driven by the Department for Small Business Development (DSBD) for instance support start-up businesses such as bakers, vegetable producers, spaza shops and hairdressers but there are only so many businesses such as these that a local economy can sustain, especially in disadvantaged areas such as townships and rural areas.

Box 2: Forced entrepreneurship:

The South African government has for decades promoted the incorporation of cooperatives to stimulate job creation and enterprise development, particularly in small towns and rural areas. Following a number of legislative changes, thousands of cooperatives were registered on the Company Registrar’s database, especially in rural areas where cooperatives constitute a significant proportion of businesses – 50% (DPME, 2017). Many government departments (all spheres) will only provide funding to cooperatives. To access this, people have to form a cooperative – even though they may not wish to, or it is not the best arrangement. Furthermore, to retain government funding many of these cooperatives will not advance to more sophisticated types of ownership for risk of losing grant funding from government. “We were forced into establishing a cooperative” said one participant in a dialogue session held in Zeerust, and said another in Thohoyandou, “our co-op started with good intentions but we became overwhelmed when we got the funding [from government] and members started to squabble amongst themselves” (DPME, 2017).

Over the years, few of these cooperatives have translated into being economically active. Of the 120 000 that were on the Company Registrar’s database in 2015 only 1 000 of these were filing the legally required financial statements (ILO, 2015). Evidence is now showing an estimated 90% mortality rate in these types of businesses. (CIPC, ISPESE 2019 Evaluation Report & DPME).

Success in LED practices elsewhere in the world show that while they are place-based they are at their core, people-centric. These initiatives begin with people taking little steps together, typically by implementing small, practical projects which can immediately show improvements in the environment and opportunities for business, rather than by government spending time and money on developing strategies. They can be initiated or championed, if you will, by local small business owners acting in concert, or by the local business chamber – as our case studies show. Success can follow these small-firm initiatives either through their own initiative, or in partnership with local government and even bringing in larger businesses

operating in the area. The demonstration effect of these types of initiatives builds confidence and trust and can lead to greater steps being taken to tackle the more difficult aspects of revitalising decaying local economies and areas. People become more involved, more energised when they see positive things happening around them.

In summary, *Box 3* below lists several factors that often blight small towns in South Africa.

Box 3: “Small towns in South Africa are often beset by the following:

- Spatial fragmentation and racial & social division;
- Low density sprawl and poor land-use management requiring high infrastructure investments;
- Inadequate and after-the-fact planning for urban growth (more informal settlement upgrading than proactive new developments);
- Poor municipal management, public sector corruption and bad service delivery;
- Weak land and housing markets;
- Environmental degradation (often linked to poor service delivery);
- Inadequate public transport and predominance of car-based planning;
- Vexed relationships between administrative and political levels and centralisation of powers around mayors;
- Fragile local economies with high levels of unemployment and low levels of urban skills resulting in competing parallel formal and informal economies with few integrating approaches;
- A larger percentage of low-income households depending on social grants than on salaries and wages;
- A high level of ‘leakage’ of purchasing power, to larger centres, and therefore weak local economic multipliers;
- Ongoing out-migration of skilled, talented and innovative people;
- Sporadic protests about poor municipal services;
- Failing schools and poor health services.”

Source: Wessels, Johannes (2012): “Small towns: development potential or poverty traps?”

Public sector corruption

South Africa’s score on Transparency International’s corruption perceptions 2020 index has remained largely unchanged for the past decade. The index, released in late January 2021, is an annual report surveying perceptions of corruption in 180 countries and is compiled from a composite of surveys undertaken in the first half of 2020. The index scores countries on a scale from 0 (highly corrupt) to 100 (very clean). South Africa’s score, 44 out of 100, places it in the category of countries considered to have a severe corruption problem. It ranks 69th out of the 180 countries surveyed.

Despite some positive anticorruption developments in 2020 including the amending of the Zondo's commission to allow the National Prosecuting Authority of South Africa (NPA) to use evidence from the commission's hearings in criminal prosecutions and the strengthening of the NPA, our index score has barely moved. The shocking, and continuing revelations at the Zondo's Commission of inquiry into State Capture has exposed South Africans to the depth and breadth of the rot in both the public and private sectors, strengthening the perception that corruption is so endemic in our society as to be beyond remedy. Even though South Africa's laws and institutions to a large extent meet international standards for tackling corruption, government's lack of political will to ensure the guilty are brought to book undoubtedly accounts for the public perception that corruption will continue to flourish unchecked and forces a resigned, shrugging complicity. The widespread corruption that beset the procurement of goods and services necessary to deal with the Covid-19 pandemic, perhaps one of the most craven examples of the disregard for consequences within our society, was not factored into the latest score of the corruption perception index; this will reflect in following years.

At local government level the most prevalent form of corruption is to be found in the misappropriation of resources, which according to Corruption Watch, accounts for 35% of all corruption cases reported by people witnessing acts of impropriety. "We have learnt from whistle-blowers that officials and employees at municipalities have embezzled and mismanaged funds meant for service delivery and development in communities. In some cases, it is reported that tens of millions of rands are unaccounted for and these funds were allocated to construction of roads and houses" (Corruption Watch, 2020). A disturbing trend of corruption that has emerged in local government is procurement corruption, where businesses, at times organised in groupings similar to cartels, pay kickbacks to counsellors who in turn ensure tender projects are exclusively awarded to them. "The practice is so entrenched and commonplace that some municipalities have abandoned long-term projects without any explanation to residents. Additionally, these businesses are repeatedly awarded tenders" (Corruption Watch, 2020). Seemingly without regard, the National Treasury recently published a draft amendment to the Municipal Finance Management Act (MFMA, October 2020) to give increased spending powers to municipalities, raising the threshold transaction amounts for non-tendered procurement. The draft amendment came soon after parliament's Portfolio Committee on Cooperative Governance and Traditional Affairs (Cogta) had raised concerns about the general state of municipalities, highlighting a host of issues – from high vacancy rates for senior manager positions and dysfunctional municipal public accounts, to investigations and consequence management into unauthorised, irregular, fruitless and wasteful expenditure (Businesstech, 2020).

Box 4: Effect of corruption on SME growth

Research into the effect of corruption on small and medium enterprises reveal an astonishing finding. The results of a survey conducted in developing countries show that 1% increase in corruption in the SME sector leads to 36.12% decline in SME growth in terms of turnover and employment (Nyarku, 2017).

Corruption is also more likely to happen when bureaucratic red tape is excessive. The study's finding also found that 1% increase in bureaucracy leads to 28.76% decrease in the growth of SMEs.

Source: Kwamena Kyarku, 2017: "Examining the Effect of Corruption and Bureaucracy on SME Growth"

The findings of the study highlighted in *Box 4* above relate closely with those from a survey conducted by SBP for the ILO in 2016. Reviewing the *"enabling environment for sustainable enterprises"*, 640 in-depth interviews were conducted with SME owners (*n*430), informal business owners (*n*110) and 100 employees of these enterprises (formal and informal). Four out of every five respondents interviewed believe corruption in South Africa to be increasing and that corruption had a negative impact on their enterprise growth (SBP, ILO EESE report 2017). Moreover, many SME and informal enterprise owners claim that government employees often pilfer their ideas (intellectual property) and use them as their own in collaboration with others (DPME, 2017).

"Corruption is a corrosive disease. Its mere presence eats away our moral fabric, undermines our law and order, and leaves, in its wake, devastation in the lives of ordinary men and women in our society" (Corruption Watch, 2020). Corruption is one of the primary obstacles to the economic development of a country, and to SME growth as we have highlighted here. For the quality of life for every South African to improve and for the economy to revive, corruption must be eradicated. The guilty must be brought to book and held accountable. The lack of electoral and legal consequences, the biggest driver of corruption in our young democracy, has led to a brazen abuse of state resources and a government that allows these acts to continue with impunity. Good citizenship plays a vital role in ensuring clean, transparent and good governance.

Lack of Social Capital

Social capital refers to the concept that there is value in our social fabric. Just like economic capital enables people to buy resources, social capital enables people to access resources such as leveraging off information from networks and relationships and facilitating the achievement of common goals. Many studies and research papers have found social capital as being a major factor in enterprise success. Social capital and social networks provided by extended family, community-based or business relationships are often used to supplement the effects of education, experience and financial capital. For entrepreneurs and business owners, this can range from having someone make introductions to potential investors and clients, gaining access to specific knowledge and expertise, to having a key person act as a mentor. Networks are valuable because potential resources are embedded within one's contacts and relationships and because these resources can be mobilised. Evidence also shows that champions, or 'agents of change' help build and strengthen social capital amongst their communities towards achieving collective action for common good. The glue that holds the notion of social capital together is trust. People build trust within their working relationships (to achieve a common goal or for business purposes) through continuous interactions over time where reciprocity happens.

Box 5: Examples of elements of social capital - bonding, bridging and linking:

Collective action: Ugandan small-scale potato farmers bonded together to collectively access new market opportunities. These farmers voluntarily formed groups, and together were able to successfully develop market channels to supply fast food restaurants in the capital city of Kampala. Other examples include the green-bean growers in Kenya who farm independently but come together collectively to buy inputs such as fertilizers and export their produce.

Building an ethos of mutuality: building trust to bridge cooperation amongst diverse stakeholders to manage common natural resources for common good by the way of facilitating action-plans and delivering on noticeable improvements (Rwanda, Peru)

Development initiatives: Initiatives focusing on environmental protection for example have been linked to positive change in social capital amongst the communities involved, such as the collective management of a coral reef area in Tobago, the coastal defence in Vietnam and a market-based approach to agrobiodiversity in India, Vietnam and Thailand.

Source: Sereriadies, Zweekhorst, Cummings, Bunders: "Producing social capital as a development strategy", Research Gate, 2015.

In South Africa, social capital that supports enterprises is demonstrated in the deep-seated immigrant socio-cultural networks that thrive in townships and rural areas. However, there is considerable hostility toward foreign-owned businesses in these areas, often leading to violent xenophobic attacks against these businesses. In conversations with township business owners in the case study sites for this research, participants of a focus group for this research claim that foreign-owned businesses flout rules and regulations which they are compelled to adhere to. Foreign-owned businesses are perceived to be cheaper; they buy collectively and in bulk. Foreign-owned businesses have a stronger work ethic; they open early and are open all hours. Because of these factors, they push out locally owned businesses. These claims are echoed in many other research studies into township and rural enterprises.

But attendees in the focus group discussions for our research did concede that foreign business success can be attributed to their kinship and support of each other; which is greatly lacking among their own local community. They cite a lack of trust and social interaction amongst local people which can stifle entrepreneurship culture in the community. Other studies also show that the formation of business associations, normally mandated with the promotion of businesses, are not encouraging in township and rural areas. They are often seen as a source of patronage for a select few and because of this, local township and rural business owners elect not to belong to these associations (DPME, 2017).

A review of recommendations from several studies contemplated by government to overcome the effect of foreign-owned businesses particularly in townships and rural areas focus mainly on regulatory proposals. These include strict enforcement on national immigration laws to prevent influx of immigrants and illegal foreigners; limiting business activity to that which is not currently within the area; enforcing mandatory licencing to operate in these areas and, compelling foreign companies to form at least 30% partnership with local businesses. But none of these regulatory interventions will address the underlying core problem – a lack of entrepreneurial ability amongst the local community, lack of social cohesion and a lack of trust in places that are fast degenerating.

Instead of viewing communities from a traditional sense as self-contained, parochial, narrowly focused and suspicious of outsiders we need to find ways and means to help make them become more inclusive –

confident, open places that attract skills and investment and where businesses learn from each other to contribute to local economic and enterprise growth.

III. Reinvigorating small towns and localities– importance of local champions

Inclusive localism, the idea of empowering people to come together for local effort, to bring services and economic activities back to the places where they are disappearing needs local champions, or a “leadership group” as Rajan describes in his book. They are essential catalysts to facilitating what needs to be done, and how it can be done, because they live in and understand the dynamics of their local environment. Business chambers, especially strong ones, have an important role; businesses owned by people living in an area are more invested in their community’s future. Businesses hire and train local people, they pay rates and taxes that enable municipalities to afford basic services for the wider community, and are partners to local government, as mandated by law, in respect of budgeting and participating in the Integrated Development Planning (IDP) for local government.

Building a community of practice

In this section we explore how champions in local business chambers are taking on a leadership role, stepping up to bring hope and economic revival back to their towns in our world of the ‘new normal’. Our case study sites included Bothaville, a small town in the Free State Province and Mbombela in Mpumalanga, which spans the Mbombela district including heritage small towns of Barberton and Pilgrims Rest. The two chambers involved in our case study sites included discussions with local business owners involved in the Small Business Institute located in Bothaville, and an office bearing member of the Kruger Lowveld Chamber of Business and Tourism (KLCBT) based in Mbombela.

Over a series of discussions held in a number of months, we have tracked their experiences. The insights stemming from the case studies give a fascinating view of a whole range of real-life examples. From these we have distilled some helpful observations that can be replicated by others in other areas; building a “community of practice” for collective learning for business chambers and people who share a passion in

seeking ways to improve the towns and communities in which they live and finding ways to encourage their local community through positive engagement and action.

Box 6: What are communities of practice?

In brief, they're groups of people informally bound together by shared expertise and passion for joint effort. Today's economy runs on knowledge and a new organisational form is emerging that promises to complement existing structures and radically galvanise knowledge sharing, learning, and change. It's called the community of practice. People in communities of practice share their experiences and knowledge in free-flowing, creative ways that foster new approaches [learned by doing] to problems. Because its primary output – knowledge – is intangible, the community of practice might sound like another 'soft' fad. But that's not the case. Over the past five years, there is evidence that communities of practice improve organisational performance in a diverse range of companies, as well as in other organised structures. Evidence shows that communities of practice can drive strategy, generate new ideas, solve problems, promote the spread of best practices, develop people's professional skills and help build people's talent.

Source: Adapted from "Communities of Practice: The Organisational Frontier, Harvard Business Review.

IV. Key insights

This paper opened with the premise that inclusive localism, an approach that involves empowering communities – people coming together for local effort – can influence positive change in their localities. This paper also illustrates that champions, or 'agents of change' help build and strengthen social capital amongst their communities towards achieving collective action for common good. Nowhere is this more sharply focused than on the insights taken from the two case study sites. Analysis, based on tracking experiences in both localities demonstrate common elements:

- *Can-do pragmatism*: an ethos of pragmatism is perceptible in both the case study sites. The local champions in both Bothaville and Mbombela recognise the importance of taking on realistic undertakings to demonstrate change can happen if people come together to support a collective action. As our KLCBT champion describes, "it's about looking at little things, what do you have that is available, what is needed and what value we can bring to change the world around us". In Mbombela, the local chamber runs seven sub-committees comprising members (and volunteers) who have

expertise, skills and interest in driving core programmes and projects that can have short-term impact but also embrace a vision for the medium and long term. Members of these committees are actively engaged in forging linkages with the local, district and provincial governments. They have achieved notable successes. In other committees, members with expertise assist in getting road infrastructure repaired in the broader district, including working with government in traffic management and setting appropriate rules for larger transport trucks. Government places considerable reliance on support from the chamber in this regard, even to the extent of requesting budgetary suggestions from the chamber's committee to expend budget allocations. The Safety and Security/Anti-Corruption committee focuses on a number of critical issues, including maintaining a victim support programme of 60 volunteers to advise and support tourists who fall victims to crime or recently, who contract the novel coronavirus. Funding from the Mpumalanga Tourism and Parks Agency (MPTA) help maintain the programme, which also includes a social media group programme that alerts travellers of potential dangers and tips to navigate them. The chamber is also currently lobbying for the implementation of virtual courts to help reduce crime, especially against tourists. Tourism is the lifeblood of the local economy in this region.

In Bothaville, volunteers from the accounting professions stepped in to help reduce a backlog in the municipal accounting systems, which created substantial problems in the delivery of basic services. The volunteers worked alongside municipal officials for over a year to clear the backlog while at the same time mentoring and transferring skills to the local officials and building trust with local government along the way. Local business owners have come together and run a social media campaign "*trots Bothaville*" (proudly Bothaville) which urges their local community to "do what you can to fix things that bother you". Again, little things that can change the world around you is the message, such as filling in a pothole in the street outside a front gate. The social media page (on Facebook) gives recognition to people who take up the challenge, and it's working – more and more members from the local community are becoming involved. A large logistics company headquartered in Bothaville that employs a considerable percentage of the local town, had the need to improve their internet connectivity for their operations. Instead of just focusing on their own needs, the company provided internet cabling to link the town. One local business owner emphasised the importance of e-commerce in bringing markets and opportunities into local towns, "it helps preserve the local economy and community". When asked why the logistics company still maintains its administration headquarters in Bothaville, the response from their managing director was simple. "We started our operations years

ago in this town, the people of this town helped build our company to what it is today. We are invested in our local community.”

- *Value of experimentation:* Being proactive rather than passive is an important message emerging from the case study sites. Champions who have the ability to be agile and flexible foster collaboration to experiment with different types of activities and to find those with the highest impact. For instance, the KLCBT chamber collaborates with a radio station with a listenership reach across the Mpumalanga province. The chamber identifies the topics of interest for business owners for each month and sources experts for the interviews. The weekly interviews, which are fast pulling in new audiences, include phone-ins; they are broadcast each week, which are then wrapped into a monthly podcast. The chamber is also experimenting with ways to attract local tourism such as reaching out to local hikers and hiking associations to build up trails, which the chamber is publishing and actively marketing. Members of the chamber’s sub-committee are currently working with the province’s tourism and parks agency and property owners/developers to design a butterfly attraction. It is estimated that there are close to 350 species of butterflies to be found in the local area with some that can be found nowhere else in the world. Other big projects underway include helping local businesses to leverage off rehabilitation of tourist routes such as along the R40, including actively running marketing campaigns for these. As the chief operating officer in the KLCBT succinctly puts it, “we are constantly thinking about how we as the chamber can provide a ‘super service’ and how we can encourage everyone in our community to think and see new opportunities”.
- *Proactive engagement:* Both chambers in the two case study sites are actively engaged in linking and bridging engagement between their local businesses and government, especially at municipal, district and provincial spheres. The chambers and their members embrace participation in the many and numerous stakeholder consultations, at all stages of programme development and implementation. Constructive and active engagement takes energy and enthusiasm, but it leads to positive change and builds trust. “Walking into a meeting like you haven’t attended it before” helps sharpen the mind and keeps the positive momentum going as our KLCBT champion describes. A crisis was recently avoided in Mbombela when in January this year, Finance Minister Tito Mboweni threatened to withhold National Treasury’s three-month equitable share budget allocation to the City of Mbombela, citing the municipality of engaging in unrealistic projections to spend money. The municipality had failed to rectify budget projections that were either too high in expenditure or too ambitious to be realistic on

the ground. Alongside concerned citizens, the KLCBT proactively lobbied for the budget not to be withdrawn and welcomed teams from National Treasury and the Mpumalanga Provincial Treasury to provide day-day oversight in the management of the local municipality.

- *Strengthening cooperation & building trust:* Some years back, the Department for Small Business Development (DSBD) embarked on a programme to support establishment of business associations to service local businesses and cooperatives particularly in township and rural areas. While having good intentions, the programme resulted in a burgeoning of many small and weak membership structures, often in conflict with each other and competing for membership fees to sustain themselves after funding from national government dried up. The KLCBT adopted an interesting approach. Instead of attempting to compete with these small associations in their local area they reached out to them with an offer to incubate and run their administrative and accounting services for a nominal fee. The smaller associations retain their independence and identity and also have the opportunity to participate in the bigger chamber's (KLCBT) lobbying efforts and member services. The KLCBT also manages the administrative functions for other associations, for instance a heritage group. It is a positive exchange too for the KLCBT. The chamber has the opportunity to reach out to citizens and local communities who would not normally participate in their chamber movement, fostering broader networks and attracting volunteers with specialised skills to its various projects and committees. The champions from both the chambers also cite a number of examples of how important it is to bring together competing politicians, which they do even if it is to share a 'cup of tea'.
- *Creating a sense of belonging:* The struggle to survive for business chambers and associations is an exercise in endurance particularly in an economy that has declined by long years of non-growth, accelerated by the pandemic and lockdown measures to contain it. It is a common struggle shared by business chambers worldwide and yet in times of economic downturn, chambers have a critically important role to play – they offer a sense of “we're all in it together” and find ways, like the KLCBT and Bothaville chambers have, to help motivate local businesses source new market opportunities and new ways of doing things. Their advocacy efforts are especially important in representing members interests when government is determining new rules of the game. When the pandemic hit and the lockdown measures came in, membership fees trickled in. The KLCBT approached the problem as an opportunity to build and strengthen a sense of belonging amongst larger businesses in their area. They sought – and received – donations from mines operating in the area, property developers and many

others to carry them through. They also lobbied on behalf of tourism businesses running game vehicles and trips into the Kruger Park to have the parks authority waive half of the game vehicle licence fees. District government provides funding for a number of the KLCBT projects and campaigns, for instance budget to print and place large tourist maps of the area in strategic places, which has also involved engaging with local townspeople.

Many of the larger chamber movements in South Africa are known to bemoan dwindling membership fees. But as one of our local champions puts it, “it’s not about collecting membership fees. It’s about offering a ‘super service’ to your members and your local community, especially when times are really tough. People see that, and they recognise it. The only time you fail is when you stop”. This demonstrates the importance of a local champion - or group of champions - as the catalyst who sees a vision for collective effort, who is agile and innovative and able to motivate others, and who keeps things going to sustain momentum.

V. Learning loops

For business chambers, big business and government too, the case studies address questions about how important the catalytic role of champions is in harnessing people’s energies to help bring about positive change, especially in small towns that are decaying. Investing in the champion dividend is a vital factor in helping to uplift towns and inspire local businesses for the future, in a world of the ‘new normal’.

There are a number of ways to help tap the value of our social fabric; social capital, which is often described as the missing link in development. As the World Bank suggests, social capital is not just the sum of the people and institutions which underpin a society – it is the glue that holds them together. Despite recognition of the potential of social capital for development, many researchers question what the fundamentals are to build it. But there is broad consensus of necessary common cognitive elements, which are evident in the roles of our case study champions; these are “bonding”, “bridging” and “linking”. Local champions initially draw support from intra-community ties – bonding; but as these expand, they actively participate and foster extra-community networks with peers - bridging and ultimately, linking to vertical networks with power holders such as government and politicians. All this may seem common

sense to the local champions that we showcase in our case studies, it is what they would describe as being 'second nature'. While leadership collaboration for a local economy is a dynamic process, there are elements from our case studies sites that can be replicated or adapted by others.

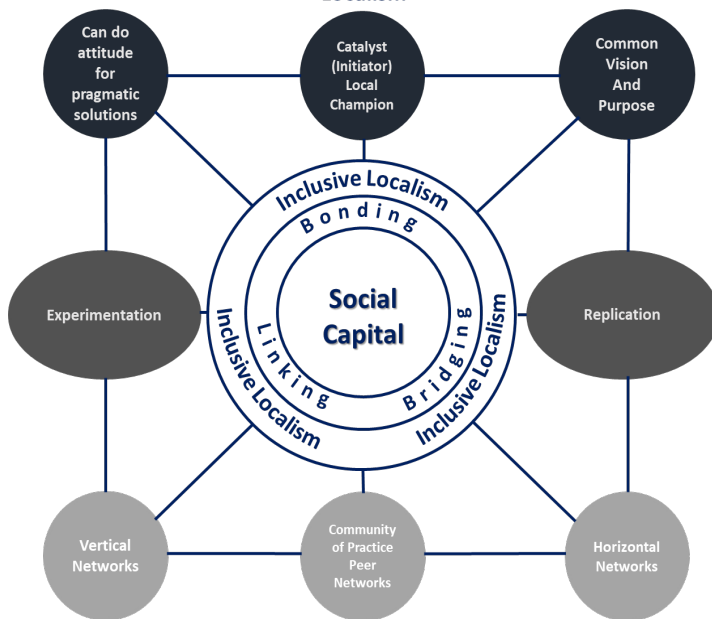
- *For business chambers:* Actively fostering networking with peers to 'take hands' and share experiences, learning from others who have similar challenges. Networks are an important component, which provide 'vertical' and 'horizontal' linkages among peers to increase their capacity in a variety of ways. An example of this type of networking is SBP's successful "Business Bridge" peer networking programme piloted in Tanzania and Malawi and targeted to small business owners. The programme provides a platform for small business owners to come together, supported by a facilitator, to meet on a regular basis to share experiences, ideas and challenges, and to contribute constructively to the collective learning of the group. Members network with and learn from their peers, dealing with real-time problem solving and provide mentoring, capacity and confidence-building support to one another. Models such as these strengthen cooperation, provide a sense of belonging and help build a community of practice.
- *For big business:* What role can partnerships play? Identifying and connecting with local champions who demonstrate leadership capabilities is a powerful way to help empower local communities in the places in which they operate. Linking with - and supporting - a local business chamber could help to bring about positive impact in the towns in which they operate. It is common sense that local people have a clearer idea of the problems and opportunities more than outsiders do. Corporate Social Responsibility (CSR) is a fundamental practice of good corporate citizenship and valuable as far as it goes, but the greater opportunity for the business community is to find ways to leverage their networks, their capital, their people and their technology to help create practical, sustainable market based approaches that help benefit society in general, and low income or underserved localities in the areas where they operate in particular. As long as CSR stays fundamentally altruistic in its motivation it is unlikely ever to be considered as being core to business and is unlikely ever to enable scale at the local level or provide lasting solutions to critical social challenges.
- *For government:* There is a metamorphosis happening at local government level in South Africa, driven by citizen groups taking action to fix services and infrastructure in the towns and areas in which they live, which the majority of local governments have for years failed to deliver. A bottom-up community

driven approach however can't work in isolation in the long term. For inclusive localism to work, the state and markets (first and second pillars as Rajan describes in his book) are needed to come together collaboratively to drive opportunities that will enable and refashion "communities of the future". The simple truth is that central to revitalisation is bringing economic activity back to places where it is disappearing. If there is no productive economic activity, it will be impossible for any community to flourish. Most recently, national government has introduced the District Development Model (DDM) that attempts to address the failures of local government. The DDM focuses around a collective plan (a "one plan") and budget ("one budget") to be prepared for all spheres of government operating in each of the 52 districts in South Africa. There are multiple views across the spectrum as to whether the DDM will affect any positive changes in local government management. Some view it as shift away from a civilian approach to more of a military-style "joint planning" approach. Others welcome it as a positive step in addressing the structural failures and systemic deficiencies of local government that have blighted small towns and rural areas in particular. Either way, policies often fail because they are created without a full understanding of the local situation and people – imposed from a central, top-down perspective rather than responding, and adapting, to ever-changing requirements from the ground-up.

Local economic development is a complex process that requires distinctive leadership arrangements and the full support of citizens for it to provide benefit in helping to uplift communities long neglected. It requires sincere engagement to build trust and an understanding that experimentation is a good thing, sifting options and alternatives to engage markets, driven by a people-centric approach. Continuous innovation is central to economic prosperity. Local governments can create better, more dynamic and competitive business environments in which local businesses thrive. They can do this through better understanding the challenges, constraints and opportunities facing local businesses and by taking a 'whole of the economy' perspective.

The reality is there is no single model that can provide all the answers. Locations will differ, but a people-centric approach can make a considerable positive difference. Local actors are the drivers of local development. Building social capital for inclusive localism is fundamental to reinvigorating communities, towns, townships and rural areas – for these to embrace future realities through leadership by government and all businesses, large and small.

Elements of Social Capital for Inclusive Localism



Elements to build and develop social capital for inclusive localism:

1. Identify and support a local champion to catalyse social capital.
2. Define a strategic local purpose and objective – a brand with a vision looking to the longer future
3. Adopt a pragmatic approach, actions speak louder than words
4. Activate regular interactions for positive networking (avoid negativity – hierarchies and politics of association)
5. Create vertical linkages with local and regional authorities
6. Engage and activate horizontal networking with adjacent towns for diversification to leverage marketing and evolve a competitive advantage for the locality
7. Experiment, learn and share by doing

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