



Industrial Policy and Spatial Planning -Lessons from eThekwini Municipality

Trade and Industrial Policy Strategies (TIPS)
Development Dialogue: Urbanisation and
Industrialisation

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Background

- TIPS recently conducted research for eThekweni Metropolitan Municipality ED unit for an Industrial Development Implementation Programme Action Plan (IDIPAP)

- Key research question was the role of metro in industrial policy:
 - Metros loom large in national economy and concentration of manufacturing activities
 - But limited vision or use or core functions for industrial policy
- Reflections in this presentation
 - First review what we mean by industrial policy and where metros fit in terms of role in the economy, responsibilities and resourcing
 - Then some specific ideas from eThekweni project

Defining industrial policy

- Industrial policy describes a suite of measures to accelerate changes in the structure of production while increasing productivity
- Objectives: Industrialisation that supports diversification, sustainable labour-absorbing activities; enhanced productivity and knowledge base and inclusivity
- Methodology: Start by asking about factors that block major industries/value chains from achieving those objectives – "constraints"
- *What it isn't: Getting the fundamentals right and then letting business and markets determine production structures*

Debates:

- Open vs closed structure - extent to which "pick winners" as opposed to responding to business needs in all major industries
- Emerging vs established enterprise (often plays out as inclusive growth vs exports; labour intensive vs high tech)
- Managing "creative destruction"
- Role of value-adding sectors in addition to manufacturing

Industrial policy instruments

- Most effective sector levers arise from core state functions:
 - Developing a vision for the production structure (typically very broad)
 - Provision and pricing of infrastructure (especially roads and rail systems, electricity, telecomms, water and waste removal)
 - Ensuring low-cost inputs where viable, including by limiting monopoly rents
 - Education and skills development plus support for innovation
 - The definition and protection of property rights
 - The regulatory framework
 - Trade measures such as tariffs and quotas
 - State procurement
 - Taxation and, by extension, tax incentives.
- Subsidies and tariffs are not the first choice
- Financing should not become a way to protect inefficiency

Metros in industrial policy, in theory

- Concentration of people and businesses should create agglomeration economies
- Theoretically municipality is closer to business and citizens but limited by allocation of power and responsibilities, technical capacity, and political realities
- Metros role in industrial policy shaped by:
 - The Constitutional mandate given to municipalities, incorporated in Municipal Structures Act 1998 and Municipal Systems Act 2000 and national LED policies (mostly from Cogta)
 - The position of municipalities in the economy
 - Inherited structures for economic and infrastructure planning
 - Fiscal capacity



In practice, metro role is constrained

- Metros are core nodes in national economy, but value chains depend on linkages and governance structures outside metro scope
- Constitutional mandate designed to keep economic powers largely at national level, largely to protect redistribution between regions
 - Affected by metro infrastructure and regulatory decisions
 - But metros have no direct influence on trade measures, national subsidy and tax programmes, bulk and national infrastructure (e.g. ports)
 - IPAP does not spell out a spatial vision or have systems for metro inputs
 - Bulk suppliers of infrastructure affect cost and quality at metro level
- Historically limited capacity for economic planning, and largely divorced from infrastructure and regulatory decision making
- Bigger budgets than some provinces, but heavy responsibilities for extending infrastructure and no history of funding industrial policy

Metro industrial policy instruments

- Main instruments:
 - Ensuring high quality, affordable infrastructure especially at industrial sites and for logistics
 - Red tape reduction
 - Fast tracking catalytic projects and clusters through zoning, funding support, infrastructure provision and investment promotion;
 - Providing economic leadership to identify opportunities and threats and promote appropriate responses
 - Targeted procurement spend
 - Investment promotion
- Also a key role in improving conditions for workers, which in turn promotes productivity (commuters, water and lights, security, recreation and culture, etc.)
- Complementary:
 - Engaging on national and provincial policies and projects
 - Assisting local business to benefit from national industrial finance, trade measures and incentives
 - Encouraging support from higher and tertiary education institutions.

LED as response

- LED strategies form part of the Integrated Development Planning (IDP) process
- LED aimed to get municipalities involved in economic planning
- But typically focused on land use for the economy – zoning, corridors, etc.
- In contrast, industrial policy aims promote industrialisation – infrastructure provision is just one lever, not the main objective
- In most municipalities economic planning and spatial planning remain separate
 - 2016 SACN State of the Cities report recognised that economic and spatial planning teams typically develop strategies in silos, with limited interaction and coordination
 - Infrastructure decisions structured by spatial aims rather than to support key economic projects or industries
- LED processes typically do not include an industrial policy end state – at most consider relations between SME/ informal and established large business

Industrial policy and LED

	National industrial policy	Local economic development
Scope	Sectoral at national level	Spatial at metro level
Planning instrument	Rolling IPAP sets industrial-policy KPIs for the dti and other national departments	IDP plans core municipal functions, with LED typically centred on infrastructure provision and sometimes SMEs and township economies.
Core strategies	<p>Sector-level strategies to promote industrialisation and address main constraints; BBBEE</p> <p>No explicit spatial vision despite IDZ/SEZ programmes and industrial site support</p>	Location of industrial and residential infrastructure; promoting investment by major companies within municipal boundaries; opening (or closing) spaces for informal and small business, township economies and clusters; procurement
Consultation	Other departments and agencies; includes business at national and sectoral level; largely exclude municipalities, even metros	Consult with citizens (required for IDP); limited consultation with national economic departments and agencies as well as businesses
Management	National departments and agencies, with limited forums for engagement with other spheres	LEDU and Council; limited inputs on economic structure; often do not have clear strategy to engage with other spheres

Strengths and weaknesses

	National industrial policy	Local economic development
Main strengths	Value chains fall more within scope; resourcing and institutional capacity for dealing with economic issues; access to most policy levers	Closer to businesses, especially small business; more direct accountability to voters; power over local infrastructure and regulations
Main weaknesses	Contestation over long-term aims and industries (especially inclusion vs exports vs rural development, managing creative destruction); silos; inadequate resourcing	Do not control value chains outside of municipality, or critical policy decisions even within municipal space, including bulk infrastructure provision and costs as well as trade and industrial policy measures; lack of capacity as not historically a core function for municipalities; silos

Problem statement for eThekweni

- 3rd largest city in South Africa and almost 10% of GDP
- Comparative advantage in transport, storage and logistics and heavy industry; linked to Port of Durban and Aerotropolis (Dube Tradeport)
- Climate and coastline good for tourism
- Experiencing a construction boom, particularly along the North coast
- Leading tertiary institutions

Challenges:

- National slowdown
 - Metro itself growing slowly in terms of population, economy and employment – but still doing well in per person terms
 - Relatively low share of people with degrees in workforce
 - Growing trade deficit, including in goods that could be produced locally
 - Lags other metros in services (dominated by finance but other services also)
 - Rapid growth along the North coast has to be coordinated with efforts to upgrade the port area and the CBD
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Main levers for eThekweni

- Main instruments that are available to the metro:
 - Clusters
 - Licencing and land use
 - Infrastructure and industrial estates
 - Local procurement
 - Economic intelligence and analysis
 - Skills and education policy
 - Critical success factor is ensuring alignment between economic role players
- Port of Durban is managed by Transnet
 - Dube Tradeport Aerotropolis SEZ is administered by the province
 - Approx. 14% households living in “traditional” areas

Clusters

- eThekweni unit supports local clusters, in particular by resourcing governance structures that bring businesses together
- Industrial clusters provide a useful conceptual framework for local policy, especially promoting competitiveness and investment
- May prove difficult to bring in new and emerging enterprises that have less to offer to collaboration, and not clear how link to national VC strategies
- eThekweni flagship clusters: Durban Automotive Cluster (DAC); Durban Chemical Cluster (DCC) and KZN Clothing and Textile Cluster (KZN CTC)

Challenges:

- Managing trade offs between established and emerging business
- Capacity to identify what is desired from each Cluster – which will vary by cluster – as the basis for setting KPIs and deliverables, rather than providing general programme funding
- Use of rates and taxes as well as subsidies for incentives

Licencing and land use

- eThekweni does well in terms of the cost of doing business compared to other metros
- Still, business often runs into unnecessary delays around licencing and zoning
- Environmental, planning, licensing and approval cycle as well as provision of bulk services can take 5 to 10 years for large projects
- DAFF controls agricultural land within metro and decisions are slow

Challenges:

- Economic unit has limited influence with infrastructure and regulatory authorities
- Economic unit would have to dedicate more capacity to evaluate and lobby for faster responses to business concerns around regulations (including delays on EIAs) and infrastructure maintenance and pricing
- Need a detailed, systemic review of procedures as the basis for a re-engineering to ensure minimum delays and adequate staffing

Infrastructure and industrial estates

- Quality and location of industrial estates is key for competitiveness and inclusion
- But hard to manage trade offs with extension of household services
- History of cross subsidising households from industry – how to get prices right?
- In EThekweni:
 - The most expensive location in terms of property rates for industrial land
 - Concern over displacement of old industrial sites by new investments
 - New estates are mixed-use sites and tend to attract services and logistics rather than manufacturing
 - The Business Retention and Expansion (BR&E) programme has not affected the inconsistent servicing of established industrial estates

Challenges:

- Need a plan with KPIs for
 - Manufacturing in mixed-used areas
 - Industrial and retail sites to promote more integrated township economies
 - Maintenance and upgrading of sites
- Lack of dedicated structure to manage and maintain sites in ways that maintain competitiveness but also open space for emerging enterprise
- No dedicated budget for maintenance or new investment

Local procurement

- In 2016/7, eThekweni spent
 - R7,5 billion on contracted services and goods (mostly services), equal to around a quarter of its total spending (the rest went mostly on remuneration and bulk services)
 - Most procurement supports capital expenditure on infrastructure, for a total of R5,6 billion
- Proposals for Radical Economic Transformation: require 30% BEE subcontracting, with incubators for construction companies; not clear how relates to catalytic and other large projects
- Difficulty where qualified enterprises do not exist to subcontract - Labour Market Dynamics survey found 20 000 construction enterprises in eThekweni in 2015; around a third white owned; mostly in finishing and maintenance, not new construction

Challenges:

- National vs metro "local"; BEE vs "local"
- Link to cluster programmes
- Need to reform tender system – see GT open tenders
- Reform of supply-chain management systems to promote and monitor local procurement
- Leveraging off Cornubia and other developments
- Working with TVET and CIDB to scale up training for small-scale contractors and construction workers

Economic intelligence and analysis

- A core function for economic planning is
 - Identifying opportunities and constraints ahead of the market
 - Monitoring and evaluating outcomes and programmes to ensure respond to changes
- Economic cluster has a quarterly publication, EDGE, that provides some key local indicators plus an in-depth focus report
- Data reliance on national surveys
- No formal monitoring of programme outcomes

Challenges

- Establish economic intelligence systems able to provide:
 - Early warning of opportunities and constraints
 - Info on progress toward KPIs
- Need to bring together existing info – but metros could also consider own info gathering systems (surveys, focus groups, forums) as national data frequently weak for localities
- Setting KPIs for key outcomes and outputs as basis for monitoring

Skills and education

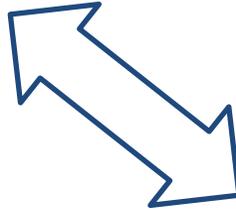
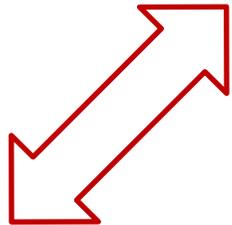
- Higher education is critical for industrial policy
 - Meeting skill needs
 - But also to support evidence based planning and monitoring
- eThekweni has strong higher education (UKZN, TVET colleges)
- But limited engagement to support economic development aims
 - Clusters have some relations with TVET, but not very consistent
 - UKZN experts participate in city planning processes as individuals, but economic unit has not developed relations around its functions

Challenges:

- Tertiary education and training is a national function – how to relate?
- Economics unit itself would need to dedicate capacity to manage relationships
- Need clarity on cluster skill requirements and how TVET can help

Economic planning in eThekweni

National: the dti,
other economic
departments, SOCs
and DFIs



Provincial: KZN
Economic
Development
Tourism and
Environment
(EDTEA) and
provincial agencies
(TIKZN, Dube
Tradeport etc.)



Metro: eThekweni
municipality
economic cluster
and City Planning
Commission
(CPC)

- Within the metro, limited collaboration across the economic departments, infrastructure and land-use planning
- Economic plans do not appear to drive infrastructure or licencing decisions, and have not leveraged consistently off catalytic infrastructure and housing projects
- Limited forums for engaging with national and provincial players (departments, SEZ, SOCs)

What could be done

- Nationally:

- Lobby for a spatial dimension to IPAP and a forum for engagement – MinMec not seen as appropriate
- Formal memoranda with provincial agencies (KZN EDTEA, TIKZN, Dube Tradeport etc.) and align with provincial plans
- Assist local business to apply for national industrial finance, trade measures and incentives
- Fast-track beneficiaries of national incentives

- At metro level:

- Ensure economic criteria included in decision making on resourcing and location of infrastructure
- Develop capacity to identify key infrastructure and regulatory requirements for business (unblocking capacity plus systematic review of constraints)
- Requires greater clarity about desired economic outcomes in terms of value chains, space and type of business (small vs established)



Thank you

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