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WORKING PAPERS

**Evaluation of Spatial Development Initiatives:
Case Studies of the Maputo Development Corridor and
the West Coast Investment Initiative**

David Bek and Ian Taylor

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Development Policy Research Unit
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Forward

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Abstract

Spatial Development Initiatives (SDIs) form an integral part of the South African government strategy to attract investment. SDIs are claimed to be short-term and targeted undertakings to foster economic growth.

This working paper reviews two SDI projects, namely the Maputo Development Corridor (MDC) and the West Coast Investment Initiative (WCII). The paper outlines many strengths within the MDC and WCII and draws out lessons to be learned that could improve the delivery of ongoing and future SDIs.

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1. Introduction

Currently, projects under the umbrella term “Spatial Development Initiatives” (SDIs) form an integral part of the South African government strategy to attract investment, both local and foreign. Launched in 1995, SDIs are claimed to be short-term and targeted undertakings to foster economic growth by fashioning globally competitive spatial entities – new investment, infrastructural development and job creation. SDIs ‘aim to facilitate the creation of viable new jobs, as potential investment opportunities, identified through the process, are taken up by the private sector’.¹ The SDI methodology seeks to identify and then facilitate economic potential in particular locations in South Africa by enhancing their attractiveness for investment.² These SDIs are a strategic attempt by the state, in tandem with the private sector, to ‘unlock inherent economic potential in specific spatial locations in southern Africa’.³ Both the Maputo Development Corridor (MDC) running from Witbank in Mpumalanga to Maputo, capital of Mozambique, and the West Coast Investment Initiative (WCII) are examples of ongoing SDIs.

The SDI methodology calls for a limited time frame of central involvement. For many of the SDI projects, the exit phase has been arrived at, and the ordering for these ongoing SDIs are being negotiated and implemented. Hence, a crucial period has been reached where prospective management systems, strategies and institutional arrangements need to be tracked. This working paper demonstrates some of the strengths within the methodology of the SDIs reviewed such as the establishment of various bodies to deal with capacity constraints and the establishment of strong project teams. However, perception of the SDI process appears generally negative, with one recent commentary asserting that ‘although the majority of South Africa’s fourteen spatial development initiatives got off to an inspired start, many seem to have petered out at the crucial investment stage’.⁴

¹ ‘Spatial Development Initiatives in Southern Africa’, www.sdi.org.za

² See Ian Taylor *Review of Spatial Development Initiatives: Methodology and Application of Resources*, report commissioned by the Department of Trade and Industry, and the Development Bank of Southern Africa, November 2000.

³ ‘Spatial Development Initiatives in Southern Africa’, www.sdi.org.za

⁴ *Business Day (Johannesburg) December 4, 2000.*

2. Key Background Issues

Before embarking on a review of each of the two SDIs individually, it is useful to reflect on the broader concerns that underpin a review of the SDI programme in general. It is also important to examine the specific objectives of the SDI programme. Different emphases and nuances emerge from various official documents and in presentations by key stakeholders. Investment promotion (both domestic and foreign direct investment), infrastructure development, economic growth, job creation, export promotion are all SDI objectives. Internal consistency in the objective function of the SDI programme needs to be checked, with respect to the specific incentives built (explicitly or implicitly) into the programme.

Given the pre-eminence of investment promotion as an objective, it is important to note that domestic investors and foreign direct investors may present different risk/uncertainty profiles. For example, it may be that domestic investment and FDI respond differently to specific incentives, given that they are likely to have different risk/uncertainty perceptions (in part, as a result of asymmetric information).

In general an assessment of the impact of the SDI programme raises questions concerning the rationale for South Africa's industrial policy and the role of incentives in influencing firm-level decision-making processes given the spatial focus of the SDI programme. More specifically, South Africa's regional industrial policy is the focus. We need to reflect on factors influencing the location of economic activity⁵. In the context of a review of the SDI programme, we need therefore to ask first, what impacts on the firm's investment decision (new investment and expansion of productive capacity), and second, how does it decide where to locate. How important are incentives in investment decisions, relative to other factors such as risk, uncertainty, return, general macroeconomic conditions, market access conditions, and other micro policies, to the firm?

Focusing on the firm's location decision usually brings us to some conception of agglomeration economies and market access conditions. Agglomeration effects relate not only to the attraction of clustering and the potential for inter-firm co-operation and competition, but also to the dynamic of the general economic environment, which is contributed to by the agglomeration of different and even quite unrelated economic activities. The latter factor is closely related to market access issues. Access to both product/service markets and factor markets (labour, finance, technology etc) will be taken into account by firms considering location options and thus these are issues that policy-makers need to take into account when devising policy aimed at influencing location decisions. Note that some of these issues are not examined in depth here, rather simply flagged, in order to situate the reviews of the MDC and WCII in a broader context. It is also important to keep in mind that agglomerations take time to develop and therefore the time dimension needs to be reflected on too. This is particularly relevant to an assessment of short, focused interventions envisaged in terms of the SDI methodology.

⁵ *More general questions concerning the identification of SDI locations, location-specific characteristics, potential and challenges obviously need to be asked too.*

3. The Maputo Development Corridor

The eastern part of South Africa, with its ready access to the port of Maputo in Mozambique, is seen as a prime candidate for the construction of an SDI.⁶ Launched in May 1996, the aim is a developmental axis between the Maputo port and Gauteng. The economic logic lies in the reality that this is the shortest route to an export harbour for South Africa's industrial heartland. Specific objectives of the MDC are to rehabilitate the primary infrastructure along the Corridor using the private sector; to encourage private investment in the inherent potential of the Corridor and in the opportunities afforded by rebuilt infrastructure; and to safeguard development and employment creation through growth.⁷ The main particulars of the MDC are follows:

- **Single toll road - the N4 from Witbank to Maputo** Predicated upon the build operate and transfer (BOT) principle, this will be the largest road project yet undertaken in sub-Saharan Africa, rehabilitating 380 km of existing road and building about 50 km of new road in Mozambique. The project's value is in excess of US\$ 180 million and is expected to create 'at least 2,000 jobs'.⁸ It was financed by a private consortium, Trans-African Concessions, and was inaugurated in June 1998.
- **Port of Maputo** The MDCs *raison d'être* is to link up with the global economy. Therefore, a working port at Maputo is crucial. Its renewal and upgrading will enable it to play a vital role in reducing transport-related costs for exporters, thereby improving their global competitiveness and increasing profitability. The private sector is planning to take a 67 percent share in a joint venture with the Mozambican government, expected to total around US\$ 170 million.
- **Railway links to Maputo** Three railway lines run to the port of Maputo and form the rail arteries of the MDC: the Goba line from Swaziland; the Limpopo line from Zimbabwe and the Ressano Garcia line from South Africa. Rehabilitation of the lines, signal equipment and rolling stock are required after two decades of sabotage by South Africa. Total cost of upgrading the 90 km rail link between Maputo and Ressano Garcia on the South African border is expected to be around US\$ 20 million. Seventeen new locomotives and five hundred wagons costing around US\$ 80 million are scheduled to be purchased as part of the line's rehabilitation.
- **One-stop border facility** To facilitate easy access and the flow of goods and people between the two countries, a single border facility has been planned at Komatipoort/Ressano Garcia. This facility should reduce cross-border bottlenecks by providing a one-stop border control procedure. This is expected to cost US\$ 20 million.
- **Sectoral Investments** There are a number of very large investments planned and/or under construction. Notable among these are the Mozal aluminium smelter near Maputo worth US\$ 1.3 billion; the Pende gas extraction project costing US\$ 700 million north east of Maputo; the US\$ 300 million heavy minerals project adjoining Red River near Tzaneen in the Northern Province and the US\$ 300 million imenite/magnetite and vanadium project (also near Tzaneen).

⁶ David Lewis and Robin Bloch 'SDIs: Infrastructure, Agglomeration and the Region in Industrial Policy', *Development Southern Africa*, vol. 15, no. 5, Summer 1998, p. 729.

⁷ *Interim Co-ordinating Committee A Development Perspective: Maputo Development Corridor Pretoria: Government Printer, 1996.*

⁸ 'World Bank to Look at Ways of Funding Maputo Corridor', *Cape Times (Cape Town)* April 3, 1997.

3.1 Economic objectives

As already mentioned, the objectives of the MDC, and the SDI programme more generally, were to stimulate foreign investment, export earnings and to generate growth and development in specific spatial areas. Within the MDC a number of incentives were created to stimulate industrial location within the spatial area. These included low interest loans for exports, establishment grants, relocations grants, venture capital and the encouragement of additional production shifts.⁹ However, a relatively limited proportion of new business activity has been generated amongst previously disadvantaged communities. The mega-projects in particular are predicated upon familiar “trickle down” effects, which have some credibility problems. Even if such projects seek to stimulate local down-streaming (as the SDI objectives demand), the state will need to engage in critical interventions to propitiate a suitable legislative and institutional environment. Simply relying on implementing “sound macro-economics” is unlikely to be adequate and an assortment of micro-economic policies, as well as support strategies, are required. This is particularly so if small, medium and micro-enterprises (SMMEs) are to be encouraged within the broader strategy of promoting local development.¹⁰ Perhaps instead of seeking to attract elusive FDI, more attention should be given to requiring local capital into a developmental mode via instruments such as asset requirements for institutional investors and reinvestment back into the community structures (through legislation if necessary) of the banking sector. Such community-oriented finance could be used to support SMMEs and projects such as investments in labour-intensive agri-processing.

3.2 Achieving public aims through mega-projects?

The high cost of the anchor projects associated with the MDC has led to a great deal of criticism. The public aims of SDIs were tabled as important (sustainable) job creation initiatives. At the launch of the MDC, 180 proposed projects were offered to investors, with a total value of around US\$ 7 billion. According to one account, ‘it was estimated that these proposals, covering Mozambique, Mpumalanga and the Northern Province, had the potential to create up to 35,000 jobs’.¹¹ This represents a colossal amount of financing in order to “create” a relatively modest amount of employment. Whether such jobs are permanent is unrecorded, but seem to be connected to construction work on rebuilding primary infrastructure in and around the Corridor. Working on this given figure the Maputo Corridor appears incredibly capital-intensive: in return for allowing large parts of the Corridor to be effectively privatised, employment - its permanence uncertain - is being created costing around US\$ 200,000 *per* job. Lest one thinks that this is an over-exaggeration, South Africa’s trade and industry minister announced in late 1997 that the Corridor ‘was expected to attract investment of up to R25 billion creating 8,000 jobs’ - working out to around US\$ 500,000 per new job created.¹² The appropriateness or otherwise of promoting such massively capital-intensive projects in a labour-surplus economy is obviously controversial.¹³

Furthermore, the quality and nature of employment opportunities afforded by such anchor projects is problematic, if the articulated public aims of the SDI methodology are taken seriously. With a low skills base, opportunities for most of the local work force is likely to be casual, low-paid and short-term, with minimal skills transferral of any discernible sort. Indeed, a number of

⁹ Interview with Gordon Griffiths, Chief Executive Officer, Mpumalanga Investment Initiative, Nelspruit, April 4, 2000.

¹⁰ On this, see Christian Rogerson ‘Road Construction and Small Enterprise Development: The Experience of the N4 Maputo Corridor’, *Development Southern Africa*, vol. 17, no. 4, October 2000.

¹¹ Jonathan Mitchell ‘The Maputo Development Corridor: A Case Study of the SDI Process in Mpumalanga’, *Development Southern Africa*, vol. 15, no. 5, Summer 1998, p. 762.

¹² ‘The Maputo Development Corridor’ *Cape Times* (Cape Town) December 20, 1997.

¹³ See also CM Naude and SK McKoskey ‘Spatial Development Initiatives and Employment Creation: Will They Work?’, paper presented at Trade and Industry Policy Secretariat Annual Forum, Muldersdrift, September 18-20, 2000.

projects along the Maputo Corridor have employed outsiders (extra-provincial and extra-national), with local people employed in menial positions. The industrial focus on minerals and metals and slightly processed goods (such as steel) seems ill-suited to a spatial area where agriculture is dominant and where investment in relatively low-skills based agri-processing and other spin-offs would be more suitable.¹⁴ Certainly, it has been shown that it is not enough simply to have mega-projects based on infrastructure and minerals processing.¹⁵

Obviously, it is acknowledged that with Mozambique being in the precarious economic position that it is, with the need to finance post-war reconstruction *and* service its untenable foreign debt, the attractiveness for the state of the mega-projects, with their potential of generating a large amount of hard currency inflows, cannot be dismissed (or, probably overtly criticised). When the private sector proposed such a project, Maputo obviously was very welcoming. However, the mega-projects have been cast as part of the SDI programme, which talks a great deal about sustainable development, eco-friendliness and job creation. It seems that it would have been better to rather concentrate on lower level projects as part of the SDI programme and leave such mega-projects to their private initiators (although the DTI and its Mozambican equivalent would clearly need to remain engaged).

Promoting low-level industries, such as agricultural-based industries, would certainly foster a degree of skills transferral and community involvement, much of it labour-intensive. This would be far greater than the type of mega-projects advanced thus far and would ensure local community support. According to one source, skilled labour in Mpumalanga was a serious problem, and joint venture involving training and relatively low-skilled industrial projects was more appropriate.¹⁶ Certainly, an active project to stimulate agri-processing would build upon competitive advantages extant in the spatial area and build upon existing skills and knowledge. It would also be less capital-intensive and more labour-intensive, contributing to grassroots development that the current huge projects obviously lack. Industries that could benefit from such promotion include fresh water fish breeding, strawberry hydro culture, LaChenalia bulb production, citrus production and cotton production.

By promoting such agriculturally based projects, empowerment issues would be greater served. So far, although the SDI programme claims to have empowerment as a key objective, there seems to be very little explicit gender policy within the MDC.¹⁷ In the affirmative action policy, which is supposed to be integrated into SDI projects, gender is not specifically emphasised.¹⁸ As one source put it, 'sadly, the only industry that appears to be working for women is sex work that has sprung up along the [N4] highway, which is unfortunately accompanied by the increase in HIV and AIDS'.¹⁹ Gender and associated affirmative action measures (such as promoting Black empowerment) need to be re-thought and *seriously* incorporated into the objectives and methodology of the MDC. This could be much easier implemented if the projects were of a less "mega" size and where the skills requirement was less onerous. Indeed, such smaller projects would accommodate capacity-building schemes and training programmes that are far more sustainable (and transferable) than steel mills etc.

Where empowerment projects have been advanced, such as in tourism and forestry, a lack of regulatory legislation as well as disagreement and disjuncture between the provincial and national

¹⁴ *There is an agri-industrial cluster developing around Nkomazi, though it is in its initial stages.*

¹⁵ *Interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.*

¹⁶ *Interview with Gordon Griffiths, Chief Executive Officer, Mpumalanga Investment Initiative, Nelspruit, April 4, 2000.*

¹⁷ *See Commission for Gender Equality Gender Analysis of the Maputo Development Corridor Projects Johannesburg, 2000.*

¹⁸ *The two points (out of one hundred) allocated for gender representation in the government points system for the awarding of contracts is trivial and wholly inadequate.*

¹⁹ *Colleen Lowe-Morna, quoted in 'Multi-Billion Rand Corridor Great for Men, Poor for Women', African Eye News Service (Nelspruit), February 14, 1999.*

levels has effectively sabotaged such efforts. Struggles over responsibilities and competencies have led to the negative outcome where little was achieved.

3.3 Methodology employed in the MDC

It is apparent that high expectations were built around projects within the MDC. According to one source, 'too high expectations were raised through premature announcements - the build-up was too much'.²⁰ According to another (Mozambican) source, the MDC concept was 'over-enthusiastic at the beginning and did not establish legal and institutional mechanisms before the project began'. The conclusion was that it 'would have been much better to wait'.²¹ One of the contractors on the N4 toll road found that this over-selling had created a number of problems for their operations, asserting that 'the expectations of the communities involved in and impacted by the [MDC] project are extremely high. [This is] a source of concern as it may create negative perceptions of [the contractor] and the road'.²²

Whilst the promotion of the MDC was obviously necessary and a certain amount of over-selling was perhaps required, more realistic evaluations of what was possible would have been better advised. It appears that there was no real debate on the MDC prior to its public launch.²³ Exaggerating the potential and readiness of the MDC to receive investment has led to disappointment on the part of prospective investors who may be reluctant to return if turned away at their first expression of interest.²⁴

The emphasis on speed within the SDI methodology precludes serious engagement with stakeholders outside of the financial sector. In particular, on the Mozambican side, legal and institutional mechanisms were not established, nor given sufficient time to begin working, before the project began.²⁵ According to one source:

*The Department of Trade and Industry (DTI), the government's custodian of GEAR and its SDI-offshoots, has taken a hard line and non-negotiable stand on the planning of SDI projects, particularly when it comes to issues of grassroots participation, given the fast-track nature of the SDI processes.*²⁶

Certainly, the implementation of a fast track approach in Mozambique has caused problems in an environment where capacity to evaluate the implications of projects is currently limited.²⁷ The wider MDC project was originally a programme set in motion within Mpumalanga to help stimulate development from an integrated approach, with concentration on SMME development, policy research, capacity building, pilot projects etc. This original programme, reporting back to the Department of Transport was subsumed by the SDI project. As has been pointed out by a diverse array of informants, this new SDI programme was heavily centralised and focused on speed and big bang anchor projects, and eager to push industrial process issues. This situation was compounded by the nature of the process of engagement with the local community. As one analysis remarked,

²⁰ Interview with Gordon Griffiths, Chief Executive Officer, Mpumalanga Investment Initiative, Nelspruit, April 4, 2000.

²¹ Interview with Dr Alfredo Namitete, Chairman, Committee of Senior Officials, Southern African Transport and Communications Commission, Maputo, April 6, 2000.

²² *Trans-Africa Concessions Human Resources and Social Responsibility: Managerial Plan for the Implementation of Annex Eight Midrand: TRAC, 1997, p. 3.*

²³ Interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.

²⁴ Interview with Gordon Griffiths, Chief Executive Officer, Mpumalanga Investment Initiative, Nelspruit, April 4, 2000.

²⁵ Interview with Dr Alfredo Namitete, Chairman, Committee of Senior Officials, Southern African Transport and Communications Commission, Maputo, April 6, 2000.

²⁶ Dudley Moloi 'There's Logic in SDIs, But...', *Land and Rural Digest*, vol. 1, no. 1, June/July, 1998, p. 16.

²⁷ Interview with Francisca Henriqueta Soares, transport economist, Mozambican Ministry of Transport and Communications, Maputo, April 10, 2000.

In Mpumalanga, there has been limited communication about the MDC between the provincial government and local government communities, the private sector and organised labour. It is a paradox that, although the Corridor is well known nationally and internationally, many local communities, which will be directly affected by the development, have very little information on the project.²⁸

Many local residents are outraged that placing tolls on the N4 will separate them from their schools, jobs and the main shopping centres in Nelspruit. According to the local Federated Long and Local Distance Taxi Association, the 'organisation [was] not invited to any decision-making meetings about the toll gates'.²⁹ On the Mozambican side, there is a general perception that the projects associated with the MDC have caused shortages of water and electricity, and that the Maputo Corridor is simply a road in and out of Mozambique to be used by South Africans.³⁰ Having said that, it must be added that civil society has not always responded to invitations to negotiate the implications of the MDC, in particular the raising of tolls on formerly public roads. According to one Mozambican source, the government called meetings to discuss the MDC but a number of stakeholders did not bother to attend the meetings or came unprepared. These people (primarily entrepreneurs and local companies) now complain loudly at the impact of the MDC on their businesses.³¹ It is apparent that dialogue with civil society is a two-way process and more complicated than simply critiquing the state for a lack of engagement. For whatever reason, there seems to have been a lack of coherent local and regional linkages, or dissemination of knowledge about the SDI. One source asserted that these local interactions should have been established first, prior to the construction phase.³² With a very low level of Mozambican NGO activity *vis-à-vis* the MDC however, this is problematic.³³

At the same time, 'Mpumalanga's economic affairs department agrees that the small man [*sic*] has not always featured significantly in the Maputo Corridor planning'.³⁴ This has led to a scenario where the MDC was recently described as 'a major election issue in the small towns it straddles, with thousands of commuters accusing the government of crippling their economies by instituting the highest road toll fees in South Africa'.³⁵ On the Mozambican side, a lack of participation by local communities in the toll road process led to a loss of land with very little compensation and with no job creation, leading to opposition to the toll road.³⁶

It was also discovered that the role of investment promotion agencies at the provincial level was apparently being dismissed by senior DTI officials as being "barriers" to the fast track approach. In reality, the investment agencies, the Mpumalanga Investment Initiative (MII), were the main facilitators and first point of contact for prospective investors. Its functions were to disseminate information about the spatial area, provide a one-stop investor service, and market the MDC.³⁷ However, at the time of interviewing, the Mpumalanga Investment Initiative had a

²⁸ Jonathan Mitchell, 1998, p. 760.

²⁹ *Mail and Guardian (Johannesburg) June 15, 1998.*

³⁰ Interview with Dr Milissão Nvunga, lecturer at the Instituto Superior de Relações Internacionais, Maputo, April 7, 2000.

³¹ Interview with Francisca Henriqueta Soares, transport economist, Mozambican Ministry of Transport and Communications, Maputo, April 10, 2000.

³² Interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.

³³ Interview with Dr Milissão Nvunga, lecturer at the Instituto Superior de Relações Internacionais, Maputo, April 7, 2000.

³⁴ *Mail and Guardian (Johannesburg) June 15, 1998.*

³⁵ *Mail and Guardian (Johannesburg), December 1-7, 2000. In informal interviews with local business people (Nelspruit, April 3, 2000), it was clear that the siting of the toll plazas and the increase in costs was widely resented, particularly as no visible new investment (or perhaps business opportunities for the informants?) had apparently flowed into the area, as promised by the elaborate MDC prospectus.*

³⁶ Interview with Dr Alfredo Namitete, Chairman, Committee of Senior Officials, Southern African Transport and Communications Commission, Maputo, April 6, 2000.
Idct/par

³⁷ Interview with Gordon Griffiths, Chief Executive Officer, Mpumalanga Investment Initiative, Nelspruit, April 4, 2000.

staff of seven, funded by the provincial government. The MII offered free pre-feasibility studies and actively pursued liaison with other provincial investment agencies (such as Wesgro).³⁸ Bearing in mind that only one in one thousand telephone calls leads to investment,³⁹ the low staffing levels at the MII was a cause of concern, although local business people were aware of, and approved of, the MIIs activities.⁴⁰

The sidelining of investment promotion agencies has the potential of seriously embarrassing not only local actors in contact with potential investors, but also the whole credibility of a SDI. In particular, the apparent lack of involvement of local investment agencies in preparing, identifying opportunities, even organising the international investment conference at the launch of the SDI process was highly problematic. Much of the “investment opportunities” proclaimed at certain conferences were “wish lists” of *desired* investment. In fact, some informants saw a number of the advertised projects at the investors’ conference as totally unworkable.⁴¹ The logic of putting up such wish lists without heavy involvement of local agencies (such as the MII) in checking and approving such input is obviously problematic. There is clearly a fundamental difference between “place marketing” (where attributes of an area are declared) and more substantive investment promotion where real and substantial investment opportunities are clearly identified and shown to investors.⁴²

According to the *SADC Capital Projects Database*, 32,529 million rand’s worth of funding has been identified, with 98 projects (of 117) receiving funding, along the MDC and there have been higher levels of investment into Mpumalanga. Sources both in Nelspruit and Maputo confirmed that there was somewhat of an investment boom in the area. However, constructing a direct causal link between raised levels of investment and the MDC SDI is problematic. Both Mpumalanga and Maputo Province are well located to receive investment *anyway*, particularly from Asia. Mpumalanga for instance has received substantial investment from Mainland China.⁴³ Mozambique is going through a (mostly donor-funded) reconstruction phase after the end of its civil war, as well as embarking on a liberalisation policy aimed at attracting foreign investors. This has nothing to do with the SDI. The MDC acts as a visible marketing device, demonstrating commitment to the region from the national and provincial, and the incentives provided can act as a stimulus. But latching onto raised levels of investment as evidence of the success of the MDC SDI *per se* is not particularly helpful, nor accurate.⁴⁴

3.4 Institutional arrangements

The methodology of SDIs requires a competent and interested administration at the provincial level, particularly post-exit phase when devolution of responsibility to the provinces occurs. Unfortunately, there is considerable disquiet about the provincial leadership in Mpumalanga. The former provincial premier, Matthews Phosa, was widely seen as being a major political power supporting the MDC: ‘the youthful enthusiasm of the Mpumalanga leadership gave the Maputo Development Corridor such momentum that Mpumalanga became widely regarded as the country’s most progressive and promising province’.⁴⁵ However, Phosa’s replacement has had a decidedly negative effect on the MDC, largely due to the activities of his successor, Ndaweni Mahlangu. According to one source, competence and support for the MDC declined massively

³⁸ *Ibid.*

³⁹ *Ibid.*

⁴⁰ *Informal interviews with local business people, Nelspruit, April 3, 2000.*

⁴¹ *Ibid.*

⁴² *Amanda Driver, 1998, p. 6.*

⁴³ *Ibid.*

⁴⁴ *This point was made in an interview with Jonathan Mitchell, Economist, Special Projects and Policy Unit, Mpumalanga Province, Nelspruit April 5, 2000.*

⁴⁵ *The Mpumalanga Report, First Quarter, 1999, p. 2.*

post-Phosa and there is now a lack of interest and vision in regional integration.⁴⁶ The fact that the Mahlangu administration cancelled the technical unit in December 1999 exemplifies such disengagement by the province.⁴⁷

One source asserted that reinvestment in particular has been effected by the provincial administration's suspect image.⁴⁸ This has been a major problem, particularly as a strong and competent provincial involvement is needed in the MDC in order to deal with issues surrounding cross-border co-operation.⁴⁹ The initiative to form the Borderland Commission to serve as a mechanism for project generation, capacity building and engaging with asymmetric conditions on the Mozambican side was a welcome step in this regard.⁵⁰ However, overall, the behaviour and activities of a number of provincial politicians has not met acceptable standards of good governance. This, combined with low capacity at the provincial level in implementing policy has, and continues to threaten to, impact negatively on the MDC.⁵¹

This is compounded by the general lack of formal institutionalisation and bureaucratic frameworks at the provincial level. It is apparent that there is no effective organisational entity to take on the obligations of a SDI post-DTI involvement, nor is there any real coherent manner by which the skills, lessons and style of working learnt during the planning and launching phase be passed onto local and provincial players who are expected to run with the project(s). Even relatively small things such as the concession agreement for the N4 toll road were withheld from the provinces by the national government.⁵² A Mozambican source confirmed this, asserting that the concession was 'secret' and not publicly available.⁵³ This old-style form of top-down government clearly may cause a disjuncture in the smooth exit strategy envisioned by the SDI methodology. Certainly, it was found that the relationship between the national and provincial had broken down in many regards, for example the industrial development head had not met his counterparts in Pretoria for two years.⁵⁴ A large number of informants on the ground in Mpumalanga asserted that this was due to the management style of leading DTI officials involved in the SDI programme, who had attempted to ride roughshod over the provincial level and had consequently impacted negatively on the relationship between national and provincial.

Evidence existed that key personnel within the DTI had retreated from the position that promoting cluster projects was important and that advancing an active cluster process was necessary for success of the SDI.⁵⁵ Indeed, the leveraging in of private sector investment through cluster strategies had apparently been rejected by influential individuals, even though clustering was not only within the overall SDI methodology, and in spite of the evidence elsewhere that cluster strategies have significant potential in promoting investment concentrations that had considerable linkages with the local community and hence stimulated growth and development.⁵⁶

⁴⁶ *The identity of this interviewee is withheld, for obvious reasons.*

⁴⁷ *Interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.*

⁴⁸ *Interview with Gordon Griffiths, Chief Executive Officer, Mpumalanga Investment Initiative, Nelspruit, April 4, 2000.*

⁴⁹ *Interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.*

⁵⁰ *Ibid.*

⁵¹ *Interview with Greg White, head of Private Sector Investments, Development Bank of Southern Africa, Halfway House, April 14, 2000.*

⁵² *Interview with Jonathan Mitchell, Economist, Special Projects and Policy Unit, Mpumalanga Province, Nelspruit April 5, 2000.*

⁵³ *Interview with Dr Alfredo Namitete, Chairman, Committee of Senior Officials, Southern African Transport and Communications Commission, Maputo, April 6, 2000.*

⁵⁴ *Interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.*

⁵⁵ *Ibid.*

⁵⁶ *There is a cluster process in the Highveld Ridge area that is based around activities generated by Sasol. The amount of employment and their sustainability however is open to question. The sugar-based initiatives in Nkomzi are apparently better in this regard - interview with Jonathan Mitchell, Economist, Special Projects and Policy Unit, Mpumalanga Province, Nelspruit April 5, 2000. On the success of clusters elsewhere in the developing world, see Dorothy McCormick 'African Enterprise*

Not only this, but the apparent gap between the national and provincial level means that provincial officials may be reluctant to take on a project which has been driven by the DTI but one in which they have had little formal involvement until the handing over phase. Questions of ownership *vis-à-vis* an SDI may be provoked by such tensions, particularly as the projects were centralised rather than decentralised, by key personnel and decisions made at the DTI. Indeed, the “pet project” image given over by some DTI persons has meant that the MDC is seen as “someone else’s baby” as it were and thus there is a reluctance to take the project up by others.⁵⁷ This is particularly problematic in the case of the MDC where a strong provincial engagement is needed in order to deal with cross-border issues.⁵⁸

Although the political champion aspect of a SDI is generally viewed as positive, it does mean that particular onus is placed on capable political championship and a continuation after the exit stage by central government. However, the lack of institutionalisation and formal bureaucratic procedure means that much is placed on personal initiative and willingness to work across and between departments and other bodies. Clearly, SDIs are about promoting development and cannot be used as pet projects of individuals. *Ad hoc* forms of co-operation are vulnerable to the aforementioned problems, as well as the fact that such scenarios run counter to the SDI methodology by fostering effective centralisation, rather than the desired decentralisation.⁵⁹ Having said that, many informants asserted that capacity in implementing policy was very weak, particularly at the provincial level. How this can be overcome, without recourse to a reliance on strong and energetic individuals, is problematic, with no real short-term solution to this.⁶⁰

The project manager’s role within SDIs was found to be crucial, although in the MDC it was apparent that the project manager had not received the level and quality of support from the national that was required. Although seconded from the Development Bank of Southern Africa and funded from the SDI budget, it appeared that the project manager was frustrated at the lack of interaction between province and national levels of government. An ongoing thread that runs through the bureaucratic operations within the MDC was the perceived lack of capacity at the technical level.⁶¹ It was found that the highly capable project manager was operating within a milieu whereby provincial bureaucrats seemingly could not implement or carry through policy. In addition, the so-called Maputo Corridor Company that the manager headed was seriously hampered by the failure to incorporate it - it was thus ‘just a name, not even a legal entity’.⁶² This meant that the “Company” lacked any real clout, although it *had* managed to foster the original MDC vision and the SDI objectives, as well as perform concrete work in areas such as focusing on crucial areas, aid demonstration via ongoing projects, as well as procure resources and the co-operation of both the public and private sector.⁶³

Nonetheless, the consequent dependence on one individual (the project manager) to energise the ongoing processes was replicated throughout the MDC, with key personnel committing huge amounts of time and energy in a situation where institutional back-up and help was limited and support and resources from the national was visibly limited. The serious problem with this is that the project manager is supposed to exit the SDI strategy and hand over to the technical unit - a

Clusters and Industrialisation: Theory and Reality, *World Development*, vol. 27, no. 9, 1999; and Tilman Altenburg ‘How to Promote Clusters: Policy Experiences from Latin America’, *World Development*, vol 27, no. 9, 1999.

⁵⁷ The identity of this interviewee was withheld, upon request.

⁵⁸ Interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.

⁵⁹ Fredrik Söderbaum, 2000.

⁶⁰ Interview with Greg White, head of Private Sector Investments, Development Bank of Southern Africa, Halfway House, April 14, 2000.

⁶¹ Interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.

⁶² *Ibid.*

⁶³ Local Mozambican interests had seemingly objected to the Maputo Corridor Company’s incorporation due to concerns *vis-à-vis* committing themselves to involvement in a limited commercial company. These concerns were largely politically in origin - interview with David Arkwright, project manager, Maputo Corridor, Nelspruit, April 12, 2000.

unit that in Mpumalanga was disbanded by the Mahlangu administration and in Mozambique has barely been existent. Compounding this, the lack of political leadership, on both the Mozambican and South African side, was identified as extremely problematic. In addition, capacity problems were identified time and again. What perhaps could be a solution would be to rely on the private sector as actual implementers, with the state playing a facilitating role and regulatory oversight being provided by the public sector, particularly at the municipal level.⁶⁴ The involvement of the donor community in helping to build administrative capacity within SDIs may be one way forward in the medium- to long-term.

⁶⁴ *Interview with Greg White, head of Private Sector Investments, Development Bank of Southern Africa, Halfway House, April 14, 2000.*

4. The West Coast Investment Initiative

4.1 Introduction

The mini-mill of Saldanha Steel was identified as the anchor project for the West Coast Investment Initiative.⁶⁵ The Saldanha Steel plant offers possibilities for linked and related industries. In addition, the under-exploited scope for development in agriculture, tourism and fishing in the region makes the siting of an SDI attractive. The spatial area possesses a significant resource base, satisfactory infrastructure and a broader social and natural environment, which presents attractive opportunities to investors. It is important to note that, relatively speaking, the West Coast was not a neglected/poor region and possessed good infrastructure, especially roads, before the launch of the WCII.⁶⁶

Special investor-friendly packages have been introduced, focusing on non-fiscal incentives and institutional support to improve the space's pulling power *vis-à-vis* new investments. The February 1998 Investors Conference tabled 120 potential projects within the boundaries of the West Coast region. As of June 2000 the SDI website indicated that 20 of these projects could be considered operational, with a further 9 either approved or under construction, leaving 77 either at the scoping or pre-feasibility stage. Approximately 17 percent of projects are therefore operational, a figure which compares well to other SDIs. These operational projects represent approximately US \$2 billion of investment and are estimated to create between 1944 and 4845.5 direct jobs.⁶⁷ In an assessment of the WCII, and SDIs in general, an important question centres on when a project is regarded as SDI-induced and when not? Furthermore over what time period does one assess SDI-generated investment projects? These are important questions to consider in so far as they reflect investor concerns related to spatial risk/return factors and the impact of demonstration effects which may take considerable time to provide the required trigger to local and perhaps more importantly, foreign direct investment.

According to the SDI website WCII is made up of the following actual and potential project areas:⁶⁸

- **Mineral beneficiation** 16 projects (4)⁶⁹, largely export oriented.
- **Possible new mineral and industrial processing projects** 4 projects, largely export oriented.
- **Existing or approved mineral processing projects** 5 projects (3), largely export.
- **Possible mineral processing projects** 12 projects, some South African market, some export market.
- **Existing or approved metal processing projects** 12 projects (1), largely export, some for South African market.

⁶⁵ "Spatial Development Initiatives (SDIs) – the official view", Paul Jourdan, *Development Southern Africa* 1998, 15,5. "SDIs: Infrastructure, agglomeration and the region in industrial policy", David Lewis and Robin Bloch, *Development Southern Africa* 1998 15, 5.

⁶⁶ Interview with Wolfgang Thomas, chief economist, Wesgro, Cape Town 4, 2000.

⁶⁷ www.sdi.org.za.

⁶⁸ Project list taken from March 1999 WCII project database, some projects listed here are further subdivided into smaller projects, hence explaining the discrepancy between the number of projects listed here (95) and the 120 presented at the Investors Conference.

⁶⁹ Figures in brackets represent the number of projects that are classified as 'operational' within each of these categories according to the SDI website as of June 2000.

- **Potential agricultural processing projects** 13 projects (4), mix of South African and export markets.
- **Fishing and mariculture** 7 projects, mix of South African and export markets.
- **Tourism** 19 projects (7), aimed at domestic and international markets.
- **Potential infrastructural projects** 7 projects (1).

4.2 Methodology employed in the WCII

Following the broader SDI methodology, a process of project scoping was initiated and the identification of potential projects was carried out. An initial conceptual workshop was held in May 1997, the object being to inform people that an SDI had been proclaimed in the West Coast and to include key actors in identifying the opportunities and constraints to investment in the region.⁷⁰ Working groups were subsequently established to examine opportunities in each of the nominated economic sectors and within key supporting sectors such as education. A Provincial Inter Ministerial Committee was set up to ensure communication between the Project Manager and key Provincial Departments. The official investors conference was held in February 1998.⁷¹

The conference was deemed a success in terms of attendance and benefited from the presence of Nelson Mandela. Work had been carried out in the working groups to identify bankable projects and to effectively produce viable business plans so that private sector investors could quickly and easily evaluate the projects. However, it has to be said that several respondents indicated that the projects listed (however thoroughly researched and packaged) appeared to be a "wish list" which at best would take a long time to deliver.⁷² The international markets for trade and investment, upon which these projects depend, are at present fickle and have tended to bypass the African continent. This has influenced the take-up rate of a number of the tabled projects.

In addition, according to one source, a number of the projects tabled at the conference were 'simply not feasible'.⁷³ One source later claimed that such advertised projects were not ones that 'would happen'. Rather, they were 'only announced opportunities and those that were already up and running...the more innovative and new projects are still in the pipeline and subject to further research'.⁷⁴ Three years after the investors' conference, these 'innovative and new projects' are starting to emerge from the pipeline⁷⁵. The low levels of investment have subsequently been blamed on the Asian crisis. Although the project identification process was externally driven, through the IDC, WCII and consultants, some degree of local consultation did take place. This however was limited by a need to bypass local elite interests - apparently the area is dominated by a few elite families who own many of the businesses.

Interestingly, from the outset there was much resistance at the provincial level (from the National Party) to the leadership of Paul Jourdan, who was identified as being close to the ANC. One source claimed that 'the stakeholders were relatively unsophisticated and politics in the area

⁷⁰ Anonymous source.

⁷¹ Electronic correspondence with Laurine Platzky, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, January 2, 2001.

⁷² Sources include officials within Provincial and Local level organisations.

⁷³ Interview with Wolfgang Thomas, chief economist, Wesgro, Cape Town, January 4, 2000.

⁷⁴ Electronic correspondence with Laurine Platzky, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, January 2, 2001.

⁷⁵ A number of these projects are nearing the point of operation

[was] difficult (one side thinks anything from national is good, the other side is suspicious).⁷⁶ The fact that the methodology was being imposed from the National level was also resented. Hence the project became known as the West Coast Investment Initiative rather than an SDI.⁷⁷ The complexities of party politics were to hinder the early days of WCII's development in a number of ways. For example, research conducted in 1998 revealed that Provincial level actors within the National Party were strongly opposed to WCII; interestingly their sentiments were diametrically opposed to those of supporters *within* the West Coast who showed a great willingness to co-operate for the betterment of the local economy.⁷⁸

4.3 Over-selling problems

When SDI's were announced nationally in 1995, investment, trade and jobs were promised. The launch of each individual SDI has equally been heralded with grandiose claims concerning the ability of each scheme to generate significant local economic growth. The anchor projects in particular have tended to receive ringing endorsements from politicians and technocrats in all spheres of governments. A result has been that expectations have become overblown. For instance it was claimed that 'SDIs are aimed *specifically* at boosting employment and Black empowerment'.⁷⁹ These types of claims leave the SDI projects open to serious and critical interrogation, as well as negative conclusions.

For instance, the employment and down-streaming capacity of Saldanha Steel has been exaggerated in the local media. One report claimed that 'on completion some 6,000 people will be employed permanently at the factory', whilst Saldanha Steel 'is expected to generate R1 billion of contract work over a two year period'.⁸⁰ Furthermore, Phumzile Mlambo-Ngcula Deputy DTI Minister claimed that 'the West Coast region could attract...very conservatively put, investment of about R10 billion'.⁸¹ In contrast, an official on the ground later claimed that 'we kept it low-key with few promises'.⁸² Whatever the intention, a number of negative consequences have resulted:

- Increased in-migration to the localities of mega projects has been generated creating tensions with locals, complicating the process of meeting local labour quotas and in the case of Saldanha/Vredenberg, actually increasing the long-term unemployment rate.
- The nature of jobs created has also lead to complications, as expectations have not been met. The West Coast population has had minimal prior exposure to the modern flexible economy and its characteristics of short-term contracts and sub-contracting. Much resentment was generated at Saldanha Steel in the final stages of construction when workers learned they would soon no longer be required. Saldanha Steel itself bore the brunt of worker anger as small-scale riots and vandalism occurred. Production was stopped for several days and damage costs ran to 5 million rand.⁸³
- Disillusionment and resentment sets in amongst the local population who perceive that governments do not deliver on their promises with a resultant degeneration in respect for the democratic process.

⁷⁶ *Electronic correspondence with Laurine Platzky, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, January 2, 2001.*

⁷⁷ *Interview with Wolfgang Thomas, chief economist, Wesgro, Cape Town, January 4, 2000.*

⁷⁸ *Source has requested anonymity.*

⁷⁹ *Mail and Guardian (Johannesburg), September 18, 1998*

⁸⁰ *Cape Argus (Cape Town) October 18, 1997.*

⁸¹ *Quoted in Cape Times (Cape Town) November 13, 1997.*

⁸² *Electronic correspondence with Laurine Platzky, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, January 2, 2001.*

⁸³ *Saldanha Steel Gazette May 1998.*

Job creation was initially touted as one of the main aims of the SDI programme along with investment, Black empowerment, export orientation and better utilisation of infrastructure and resources. Experience has shown that these aims have not enjoyed equal weighting in the minds of SDI planners and managers. A senior SDI manager indicated that SDIs are about investment first and foremost rather than jobs or even spatial development *per se*. An imperative to attract investment internationally and locally can be understood in light of the nation's poor FDI record in the post-apartheid years. Many external observers and South African policy-makers had expected that the ending of apartheid offered an unparalleled opportunity to open the floodgates of pent-up investment flows.⁸⁴ However international financial flows have become increasingly embedded within certain channels, namely between and within the triad of Europe, North America and South East Asia.⁸⁵ Recent investments into South Africa have tended to be more speculative in nature through public utilities privatisations rather than longer-term investments.⁸⁶ The SDI programme can be understood as a major strategy seeking to locate South Africa within the map of international investment flows. Such an outward-orientation is also consistent with GEAR, which was in the process of formulation at the time the SDI programme was announced⁸⁷.

4.4 Development through anchor projects?

The Saldanha Steel project is the main anchor project of the WCII. Environmental factors significantly influenced the siting and technology of the plant, as local pressure groups exerted considerable pressure. The designation of the nearby Langebaan lagoon as a protected reserve has encouraged the building of a "green" steel plant, and it is estimated that environmentally friendly technology has added about 10 percent to the production costs.⁸⁸ Although this project was in existence before the WCII, the WCII can be credited with adding impetus to the project and raising its profile on both the international and domestic stages.

Approximately 6,300 people were employed directly during the construction phase. A Wesgro research report published in 1998 indicated that approximately 45 percent of the construction jobs were taken up by people deemed to be local, 20 percent came from other areas of the Western Cape and 35 percent from the rest of South Africa. A proportion of the jobs required specific or higher skills and was awarded to people from beyond the West Coast. Thus employees from the rest of South Africa tended to earn higher wages.⁸⁹

Contracts to the value of R2 billion were awarded during construction. West Coast contractors represented 31 percent of the total contracts awarded, thus more than 40 percent of the benefits were felt beyond the Western Cape. A similar pattern can be applied to supplies. HDIFs benefited to the tune of R121.7 million nationally of which only 8 percent (R10 million) was concentrated in the West Coast. During the construction phase 10,130 jobs were created locally and 72 new firms came into existence in the West Coast. The role played by the domestic policy environment is perhaps more important in this regard.

Once the project was completed however, employment at the Saldanha steelworks fell abruptly as the plant operates with a fully trained staff of 600 people. Due to the highly technical nature of much of the plant, minimum qualifications levels were set at Matric-level Maths and Science. Two

⁸⁴ *Communication with IDC representatives, April 2001.*

⁸⁵ *Unctad 1999 "World Investment Report", P.Hirst and G. Thompson, 1996 "Globalisation in Question".*

⁸⁶ *H. Marais 2001 "South Africa, Limits to Change."*

⁸⁷ *The Asian crisis has been mentioned as a critical factor explaining the inability to attract FDI.*

⁸⁸ *Interview with Pieter Pistorious, Saldanha Steel engineer. In spite of these added environmental costs, Saldanha Steels output is on the lowest price quartile on world markets. In addition the environmentally friendly design reduces the potential negative impacts of the plant on the areas nascent tourist industry.*

⁸⁹ *'The Economic Impact of the Saldanha Steel Project 1996-1998', Wesgro 1998 and 'Saldanha Steel: Economic Impact Study', Saldanha Steel factsheet.*

thirds of the workforce was recruited locally with the vast majority of the recruits having little or no previous work experience of any type (let alone involvement in steel manufacturing). Training was therefore crucial to the long-term success of the plant. Recruits were granted bursaries enabling them to spend time at other steel plants in South Africa and beyond. The male-female ratio of employees is 11:1 and by November 1999, the percentage of non-White staff was 52 percent.⁹⁰

Saldanha Steel operates a policy of 100 percent outsourcing and therefore employs no staff beyond the requirement for direct steel production. Such a system enables Saldanha Steel and other local corporates to maintain low operating costs, and it can be argued that this permits the development of entrepreneurial skills within the local community: catering, cleaning and security services are all performed by West Coast-based companies. A lack of entrepreneurial skills and capacity remains a problem however. The issue of outsourcing is highly complex and emotive. Whilst the process provides considerable new business opportunities it is necessary to note that levels of remuneration, job security and general working conditions are often far from ideal in the eyes of some critics. In total, the operating phase of Saldanha Steel has been credited with creating 1,300 jobs within the Saldanha cluster, 550 in the public sector and 5, 000 in other firms.

Questions have to be asked about whether such mega-projects can be justified when scrutinised from other angles:

Of the R7.1 billion, and after discounting expenditure on foreign specialised technology and equipment, start-up costs, land and financing cost, and design, management, materials and construction purchases in South Africa as well as specialised equipment and technology which could only be procured in Gauteng, about R2 billion was available for expenditure in the Western Cape, including the West Coast sub-region.⁹¹

'It could be argued that the R8 billion investment into a full-time staff complement of 600 employees hardly justifies all the effort'.⁹² This goes to the heart of debates relating to the validity of mega-projects as engines of growth in contemporary developing economies.

Having said that, a number of industries down-stream *do* benefit from Saldanha Steel. Duferco, a Swiss owned company have invested US\$180 million in a plant, which processes a proportion of Saldanha Steel's hot rolled steel. This has created 220 jobs and has the potential to produce exports of US\$ 200 million a year producing cold rolled steel coil, including galvanised. Namakwa Sands has been extended producing titanium slag, Zircon, and Rutile. Investments in this equalled US\$ 350 million, employment is 333 and the export potential is US\$ 125 million. Portland Pretoria Cement (PPC) produces granulated iron, coal fines, COREX sludge, with an investment of US\$30 million. Employment generated is 40, operating on a 15-year contract with Saldanha Steel. Finally, Slag Reduction, electric arc slag with an investment of US\$ 10 million, created 60 jobs on long-term contract with Saldanha Steel. All these, of course, have benefited the local economy.

Big-bang projects, such as Saldanha Steel, are renowned internationally for producing a localised "boom and bust" scenario. It is evident that such an approach is premised on a number of assumptions about the local socio-economic context, national and international investment markets and the available resources. A crucial lesson is that time frames need to be devised in accordance with local circumstances, otherwise severe disjunctures result between needs and resources. For example the sequencing of WCII phasing, and the integration process in particular,

⁹⁰ Saldanha Steel has set targets such that by the third quarter of 2003 Black staff will represent 58% of the total workforce. It is predicted that Whites will still dominate the managerial and specialist categories, although the gap will be closing rapidly as promotions within the ranks takes place. Source: 'Update', September 2000, Saldanha Steel circular.

⁹¹ 'Saldanha Steel: Economic Impact Study', Saldanha Steel factsheet.

⁹² 'The Economic Impact of the Saldanha Steel Project 1996-1998', Wesgro 1998, p2.

has borne little relationship to the economic cycles associated with the construction of the Saldanha Steel plant. During the construction phase many thousands of people gained work possibly for the first time, in the local area. As a result the area became symptomatic of a boomtown; people migrate to the area in search of work, property values climb, existing businesses prosper and new businesses start up. However, the end of the construction phase and the rapid transition to the operational stage, employing 600 people, opens a Pandora's box of problems. In the case of Saldanha Steel, the rapid scaling down of employment came as a surprise to many. Unemployment in the Saldanha/Vredenberg area soared, reaching levels higher than in the period prior to the construction due to in-migration. Businesses have faltered and many have become bankrupt - 46 in the first three months of 2000 alone.⁹³ Problems such as homelessness, begging and crime have increased. At a time of economic contraction and retrenchment (which one could argue was highly predictable)⁹⁴ it might be reasonable to expect that WCII and associated public sector institutions would have measures in place to soften the negative impacts in the immediate post-construction phase and be intensifying their efforts to stimulate economic activity in the area. However at this time WCII was in the final stages of integration. Something of a hiatus thus occurred as local and provincial actors sought to familiarise themselves with new responsibilities and institutional arrangements. Some actors and institutions were better equipped for this than others.

4.5 Role of previously disadvantaged communities

A case can be made that the construction phases of Saldanha Steel provided a major stimulus to the local economy. However questions can be raised about the extent of delivery of benefits to previously disadvantaged people and indeed the benefits attained in the West Coast compared to the Western Cape and South Africa as a whole. The construction phase directly created 6400 jobs of which less than half went to West Coast inhabitants. However it is not possible to record the number of jobs taken up by previously disadvantaged communities.⁹⁵ This lack of data is a little puzzling, as one would assume that major construction companies would keep some form of employee records. In addition one might surmise therefore that firms were under no obligation to meet any form of quota targets for equitable employment. In the context of South Africa's massive racially delineated social inequalities and the Black economic empowerment aims of SDI such an absence of employment monitoring is a cause for concern.

Physical construction, management and design contracts to the value of R20 million were made available to historically disadvantaged people. In the twenty-two months before May 1998, R736.8 million were spent nationally by Saldanha Steel on service supply contracts of which R41 million were supplied by historically disadvantaged people. A Saldanha Steel fact sheet records that nationally HDIFs benefited in total by R121.7 million – 5 percent of the expenditure of South Africa during the construction phase. West Coast HDIFs benefited by about R10 million.⁹⁶

In 1998 the West Coast benefited from R12 million of sub contracts out of a total sub contracts of R22.7 million. HDIFs and SMMEs gained R2.2m of this spending. The main services provided by HDIFs were as follows: commercial cleaning, laundry services, catering, industrial cleaning,

⁹³ Interview with Trudy Mills, Centre Manager WCBDC, October 3, 2000.

⁹⁴ See foreword by Wolfgang Thomas in Wesgro 1998 'The Economic Impact of the Saldanha Steel Project 1996-1998.' Also interview with Danie Barnado, Chair of Saldanha Chamber of Commerce, 2nd October 2000.

⁹⁵ '(T)he source (geographic area) and quality of the labour supply. Information on the distribution of the labour force in terms of race, gender and the physically challenged (PDI or not) and skill is not available', 'The Economic Impact of the Saldanha Steel Project 1996-1998', p15.

⁹⁶ 'The Economic Impact of the Saldanha Steel Project 1996-1998', Wesgro 1998 and 'Saldanha Steel: Economic Impact Study', Saldanha Steel factsheet.

internal audit, stationary supplies and outbound logistical management. By 1999 the extent of HDIF benefit had risen to R2.94m.⁹⁷

The local procurement process has not been without controversy and WESGRO researchers noted the following problems:

- Communication with tender applicants was poor and not always transparent.
- Reasons for tender failure were not made known.
- Tender allocation was perceived to be unfair and entrenched mainstream business.
- Advice and support on tender preparation was either absent or not readily available.
- Saldanha Steel appeared to have capacity problems dealing with the particular requirements of HDIFs.

The researchers conclude that 'Saldanha Steel underestimated the resources needed to ensure that (local) HDIFs substantially benefit more from the construction and operations. This implies more human resources, time and money and other support has to be allocated to small business support to optimise the factory's impact on HDIF empowerment'.⁹⁸ The ramifications of these conclusions are considerable and should be noted for future major project investments. It appears that considerable groundwork should be done to prepare the local community. Questions need to be answered as to whose responsibility it is to do such preparatory work: the local business sector? The public sector? If the latter, which sphere should take the lead role? A public/private partnership arrangement? If so, under what institutional arrangements? Respondents indicated that Saldanha Steel has continued to review its systems and has made considerable progress in improving the character of its interactions with local sub-contractors.⁹⁹ The relationship between Saldanha Steel and the West Coast Business Development Centre has facilitated this process.

4.6 Down-streaming levels

Down-streaming impacts of Saldanha Steel have been limited to date, with the majority of steel being exported overseas. A small percentage is further processed locally: one third of Saldanha Steel is to be sold to Duferco, a down-stream cold rolling facility located on an adjacent site, with the balance being targeted at global markets. South Africa benefits from the foreign exchange earned through exports, however manufacturers in other countries are able to benefit considerably from the value added by further processing into more expensive products. From a national perspective there is a strong case for developing a range of localised down-streaming activities producing more valuable output. Saldanha Steel appointed a Business Development Manager in 1997 to investigate opportunities for domestic linkages in the Saldanha area.¹⁰⁰

From a business perspective a more diversified market offers protection against vacillations in international steel markets, whilst at the same time improving the local business environment. Saldanha Steel has set the following objectives:

- To create 20,000 jobs through outsourcing and new business creation in the next decade.
- To establish an effective and viable local supplier base.

⁹⁷ *Ibid.*

⁹⁸ 'The Economic Impact of the Saldanha Steel Project 1996-1998', WESGRO 1998 p.32.

⁹⁹ Interviews with businesses in Saldanha/ Bay area and with staff at West Coast Business Development Centre, April 2001

¹⁰⁰ 'Saldanha Steel and Growing Business in the West Coast – 1997/98', Saldanha Steel circular April 2000.

- To contribute towards the development of local technical and entrepreneurial skills.
- To promote a cluster of internationally competitive enterprises in the region.¹⁰¹

In order to meet these objectives it is important to investigate the mechanisms that are required to stimulate local businesses of this genre. Saldanha Steel's Business Development Manager undertook a study trip to India, China and East Africa in April 2000 in order to investigate the potential for local processing. A report on the trip records that vibrant, small scale, labour-intensive steel operations exist in all these countries. There is scope for investigating how these operations can be replicated in the Saldanha area. South Africa's progressive labour and health and safety laws may however act as a barrier to the development of such industries. Serious and informed debate is required on this issue. It is important to note that the down-streaming issue is highly complex as the industrial development needs of the Saldanha Bay area are directly affected by the business decisions of Saldanha Steels owners - the IDC and Iscor. Local businessmen report that obtaining locally produced steel for further processing is, at present, a difficult process.¹⁰² Whilst substantial claims have been made about the potential for down-stream activity, some observers believe that releasing substantial quantities of steel onto the local market was never part of the Saldanha Steel business strategy.¹⁰³

4.6.1 Evaluating the anchor project

Great care needs to be taken when judging the success of Saldanha Steel. The project can be evaluated from a number of perspectives. From the narrowest perspective, Saldanha Steel can be evaluated on its terms as a viable business. Production and sales statistics indicate that the company is proceeding satisfactorily.¹⁰⁴ As a catalyst for regional economic development, results to date are more mixed. There have been considerable short- and medium-term benefits to the Saldanha-Vredenburg area. In terms of reach into previously disadvantaged communities however, the outcomes are more questionable. A relatively small proportion of new business activity has been generated amongst the Coloured and Black communities who jointly represent the largest component of the local population. The discredited trickle-down effect has been over-relied upon to deliver benefits within these communities.

Recent Saldanha Steel literature indicates a desire to tackle the weaknesses in the future. Saldanha Steel should be held accountable for a proportion of these problems, such as non-reporting back on weaknesses in tender application/reasons for rejection of procurement bids. However other issues relate more to the broader environment, which mitigated against high take-up of business opportunities by West Coast based disadvantaged contractors. Necessary institutional development required to this process did not come on-stream until late in the process. The early efforts of WCII were focused on identifying major investment opportunities for the Investor Conference rather than upon building capacity in local communities.¹⁰⁵ It can be argued that such sequencing has held the situation back.

For Saldanha Steel to be judged a success as an economic catalyst in the long-term will depend upon the ability to engender the creation of local down-streaming steel processing activities. It is clearly too early to judge whether the project is a "success" or a "failure", as much of this will depend upon the degree to which down-streaming occurs in the future and thus the extent to which growth becomes embedded in the locality. If the company's target of stimulating 20,000 jobs comes to fruition within the ten-year time frame then Saldanha Steel may well attain the

¹⁰¹ *Ibid.*

¹⁰² *Interviews with various Saldanha Bay business representatives March/April 2001.*

¹⁰³ *Interview with Provincial official and local academic researchers.*

¹⁰⁴ *Interview with representatives of the IDC April 2001.*

¹⁰⁵ *Anonymous report.*

status of an international good practice case study. The attempt by Saldanha Steel to conduct research into the potential offered by down-streaming through local small businesses is also highly positive. For this target to be met then, significant investments will be needed from all spheres of government to facilitate the appropriate legislative and institutional environment to develop. Policy based around getting the macro-economics right will not be sufficient; a number of micro-economic policies and support strategies will need to be enacted ranging from reviews of labour legislation to micro-finance initiatives.

4.7 Beyond the Anchor Project and the Saldanha Cluster...

In contrast to the Saldanha Cluster, other WCII projects have tended to be considerably smaller in scale and reflect a substantial switch in emphasis after the failure of the 1998 Investors Conference to attract significant external investment. Henceforth more locally based and locally funded projects have emerged.¹⁰⁶ These include:

- **Paternoster Cultural Heritage Tourism Development** Paternoster is a small attractive fishing village, 15 kilometres from Vredenburg. A fresh fish market and village bakery are to be developed as the centrepiece of a broader tourism based project. The complexities of such programmes are evident in the plans to get these projects off the ground; an initial tourism appraisal and marketing study was carried out, a local Community Tourism Committee was established. Funding was sought through widespread lobbying: R500, 000 grant from National Poverty Funding, the WCPDC TLC contributed R150, 000 and the local community, R15, 000. In addition the National Business Initiative (NBI) have been consulted and Chittenden Nicks produced a development plan. The June 2000 WCII Integration document lists no less than 11 agencies that will be involved in the delivery of the project. This example illustrates that a formidable amount of co-ordination, lobbying and negotiation is required for a single, relatively small project to become operational.¹⁰⁷ The archaeological heritage of the area is to be tapped through the development of a Paternoster "archaeo-tourism" hiking trail. Should Paternoster become successfully integrated into the West Coast tourism circuit (a process that will be greatly facilitated by the recent tarring of the only road into the village) then considerable benefits may be felt by this small isolated community.¹⁰⁸ It has been noted that considerable lessons about the nature of community based Local Economic Development plans have been learned by key actors during the development for this project.¹⁰⁹ As a result future efforts within the Province will benefit from a more streamlined approach.
- **Lamberts Bay Waterfront Development** The extraordinarily rich avian resources of Lamberts Bay have led to the creation of Bird Island. R400, 000 was made available in 1998 to construct a link to the island along with a bird hide. The facility already attracts some tourists despite the infrastructural constraints of the area. It is intended to further develop the potential of the area through the construction of a Waterfront Development, including restaurants and a retail park. An initial public-private partnership (PPP) initiative failed to attract significant interest, a relaunch of the plan is ongoing. Monies have been made available from national and provincial government to pump prime the area such that it may prove more attractive for private investment. The project has been described as being "all

¹⁰⁶ *The remit and timing of this report does not allow for substantial evaluation of these projects here. Publications evaluating such community and other grassroots ventures are planned for the future.*

¹⁰⁷ *Interview with representative from National Business Initiative March 2000.*

¹⁰⁸ *Interviews with members of the Paternoster fishmarket Community Committee April 2001.*

¹⁰⁹ *Interview with Peter Jordaan, April 12th 2001.*

about local economic development with all three spheres of government cooperating for the first time to deliver.”¹¹⁰

- **Mariculture Project (Seaweed), St Helena Bay** An initial investor (from Norway) was identified to contribute in partnership with a group of community based entrepreneurs for the development of seaweed production for export. However “Norway pulled out in November 2000 as the SA water quality standards are too high for them.”¹¹¹
- **Moorreesburg regional craft centre/ living heritage centre (Tiger Oats)** The Tiger Oats company have made a historic building available for the development of a regional heritage centre which will be a “nodal point” within the wider West Coast tourism product range.

4.8 Capacity-building

Just as in the MDC, capacity constraints have posed significant challenges. Various bodies have been set up, such as the West Coast Business Development Centre (WCBDC) to serve specific practical purposes through direct contact with businesses and potential entrepreneurs. Others such as the LED forum act to bring local role players together to devise ways forward. WCII has supported such developments through rhetoric, finance and human resources. Individual WCII employees have been instrumental in driving the LED forum during the WCII exit phase.¹¹² The importance of energetic, focused, driven individuals cannot be underplayed.

In addition, an Education, Training and Employment (ETE) working group was established composed of representatives from the provincial departments of labour and education, education service providers and organised labour. The West Coast has traditionally been hampered by a lack of local tertiary education. All three of the provinces universities are situated in or very near to Cape Town: the University of Cape Town, the University of Stellenbosch, and the University of the Western Cape. There is a branch campus of the University of Stellenbosch in Saldanha, but this is limited purely to military personnel at the Military Academy there.¹¹³ As a result, young people with ability and ambition have been compelled to leave the area both to further their education and to gain employment opportunities commensurate with their qualifications. There is thus no meaningful pool of local skilled labour to supply the work force for many projects or indeed to act as forward thinking entrepreneurs. It has therefore been WCII policy to lobby for the improvement to the educational infrastructure available to the West Coast population.

The function of the ETE body is to ensure that coherent planning and investment takes place in the local education system such that young people with appropriate skills enter the workforce. Important outcomes to date include the preparation of a detailed skills audit of industrial and non-industrial sectors of the West Coast.¹¹⁴ Science and maths have been identified as core subjects leading to a number of industry school projects. These capacity-building projects at the grass-roots level are widely seen as positive.

A school career choice programme is also in progress aiming to both increase young peoples’ awareness of possible future opportunities, and also to act as a motivating tool. Most significantly a West Coast College has been “proclaimed” by the Department of Education.¹¹⁵ This

¹¹⁰ *Electronic correspondence with Laurine Platzky, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, May 25th, 2001.*

¹¹¹ *Ibid.*

¹¹² *Interview with Trudy Mills, Manager WCBDC, October 3, 2000.*

¹¹³ *However the West Coast Business Development Centre is in the process of developing links with the Military Academy. As a result the facilities of the Academy and its staff are playing an increasing role on supporting local business training.*

¹¹⁴ *Interview with Laurine Platzky, WCII Project Manager, September 15, 2000.*

¹¹⁵ *“West Coast Investment Initiative Integration Strategy”, June 2000.*

programme will be facilitated by expansion of the Work Experience Programme being co-ordinated by Starfish 2000 within the Western Cape as a whole.¹¹⁶

Such programmes will have little short-term beneficial effect upon the local economy, however they provide the bedrock foundations upon which future growth will depend. WCII's facilitative role has been pivotal to the creation of these schemes. The ability of a single agency to take a regional perspective and pull together key actors in an unpoliticised manner is essential to the success of such programmes. In addition mind set changing within the institutions of the West Coast has been integral to the process from the very inception of WCII. One former WCII employee commented that "there have been serious dividends on the process side."¹¹⁷

4.9 Business support services

The creation of business development centres is a crucial step in facilitating small business growth in a region. The WCBDC is judged by some external observers as being very successful.¹¹⁸ The centre has acted as a crucial nexus between the corporate organisations of Saldanha Bay's industrial and fishing clusters and the embryonic SME sectors. Representatives from successful local SMEs have consistently stressed the importance of the WCBDC in enabling them to access relevant training, finance and specific business advice.¹¹⁹ However it is apparent that inadequate resourcing is causing a number of constraints affecting both the delivery of services and staff morale.¹²⁰ The centres rely on a variety of sources of funding such as Ntsika, DTI, Local Authority, Corporate subscriptions and SMME subscriptions. However some sources are unreliable in making regular payments and in addition total levels of income are not really sufficient to retain staff or to provide a full range of services. For example, the WCBDC does not have access to a designated car – an incredible state of affairs in a rural area. One source admitted that the 'long-term skills and infrastructure [projects] work on very low budgets'.¹²¹

4.9.1 Financing of development initiatives

The SDI methodology focuses upon the need for rapid action to facilitate investment, by cutting red tape, or creating bureaucratic freeways. Activities that identify and rectify key blockages have been central to the SDI process in WCII. In reality WCII has been in a position to lobby directly for the removal of some obstructions to investment, whilst others are rooted in structures beyond WCII's immediate control or influence. Lipton has noted that "...despite the rhetoric there is continuing ambivalence and even hostility towards SMEs in South Africa."¹²² Such attitudes have been prevalent within key national level institutions involved in the delivery of SDI. The implication being that SMEs are poorly motivated and expect opportunities to be handed on a plate. Whilst recognising that cultures of entitlement are part of the story in areas such as the West Coast, the realities of life for enthusiastic prospective entrepreneurs from previously disadvantaged backgrounds are poorly represented by such glib statements. A number of significant barriers exist which prevent people from entering the market place.

Raising finance for small-scale entrepreneurial activities has proven particularly problematic. There are channels through which potential entrepreneurs can apply for the seed capital required to operationalise their ideas. However the playing field is less than level and a number of constraints come into play, disproportionately limiting the ambitions of small-scale entrepreneurs

¹¹⁶ Source telephone conversation with representative from Starfish 2000, October 2000.

¹¹⁷ Interview with Peter Jordaan, September 2000.

¹¹⁸ Interview with Frieda Krohn, Saldanha Steel October 3, 2000, Peter Jordaan, April 12th 2001.

¹¹⁹ Various interviews with SMEs in Saldanha Bay area conducted in March/April 2001.

¹²⁰ Information gleaned from interviews with past and present staff at WCBDC.

¹²¹ Electronic correspondence with Laurine Platzky, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, January 2, 2001.

¹²² M.Lipton, "The Role of Business in South Africa", a report on a Conference at Sussex University in July 2000.

from historically disadvantaged backgrounds. Formal free market mechanisms for attracting finance exist through the main banks. However the lending policies of these organisations effectively preclude any form of lending which may be perceived as risky.¹²³ Potential entrepreneurs from HDI backgrounds usually lack a personal track record, collateral and may well live within areas “red-lined” by banks. In rural areas, such as the majority of WCII, physical distance from a key lending facility is a significant problem as transport links are expensive and infrequent. Ultimately banks which are competing in first world international capital markets are unlikely to provide for the needs of the majority of the population in nations such as South Africa.

Unfortunately alternative financial organisations such as Khula have not provided a solution either. A combination of overly complex application procedures, very slow turn around of applications, low acceptance rates and urban bias all hinder the progress of local entrepreneurs within WCII. Turn around rates of six months does not sit easily with fast track investment ideals. Equally the setting of targets of 40 percent success rate for small business lending is quite unrealistic. A longer-term view of business start-ups is required whereby the success or failure of an individual business is less of an issue than the benefit of experience that will have been earned.

A number of respondents within local and provincial government and within local organisations expressed extreme frustration at the problems associated with capital access for budding entrepreneurs. Injection of such funds would not only stimulate business but would also produce small-scale economic multiplier effects whilst providing much needed business experience which will pay long-term dividends. In April 2000 the WCBDC assisted in the production of 22 applications for funding from a national agency. However, no replies had been received by October 2000.¹²⁴ The slowness of turnaround is a major problem for several reasons:

- Leaves the applicant in an uncertain position with relation to other potential employment opportunities.
- The optimum moment for start-up in relation to local market conditions may be missed.
- The applicant may remain in poverty for longer than is necessary.
- Anger and resentment may develop.

¹²³ Interview with Rianne Warie, rural researcher/regional economist Wesgro, September 18th 2000.

¹²⁴ Information gleaned from interviews with past and present staff at WCBDC.

5. Reflections on the Broader SDI Methodology

5.1 The Involvement of Communities and the nature of Consultation

The methodology of SDI has involved a significant departure from the vision presented by the Reconstruction and Development Programme (RDP). The RDP '...seeks to mobilise all our people and all our country's resources towards the final eradication of Apartheid and the building of a non-racist, non-sexist future'.¹²⁵ The practise of SDI represents a departure from such notions of inclusivity. At first glance the SDI strategy seems to offer a wealth of opportunities for engagement with grassroots actors. Indeed the SDI aims of creating jobs and ensuring Black economic empowerment would seem inextricably bound up with the facilitation of bottom-up activity. DTI Special Projects Manager Paul Jourdan, the man effectively leading the SDI process at the national level sees things rather differently, 'rapid is not negotiable and the speed of the process precludes a bottom-up approach'.¹²⁶

In the case of WCII the line 'we don't have time to consult every hockey club' has become something of a catch phrase justifying a top-down approach.¹²⁷ As a result there was minimal involvement of NGOs and CBOs in the majority of Investor Conference oriented WCII projects.¹²⁸ The reality is that the SDI could and should have been a vehicle for tackling local capacity weakness, either directly or through parallel initiatives. International experience indicates that capacity building is not only possible but in fact is essential to the process of economic and social development in countries racked by social polarisation. WCII methodology has opened up spaces for local actors but these spaces have not been designed in such a way that takes account of the context and character of local groups. For example an otherwise highly successful SMME conference was organised by WCII in 1999 so that networking could take place between SMMEs and corporates. However many people took part not knowing why they were there or for what purpose.¹²⁹ Work could and should have been done to build local grassroots capacity in a number of ways such that SMMEs can tap effectively into these types of opportunities.

In discussing the consultative process, the defensive reactions of people involved in the project over this issues needs addressing. It is clear that there is a difference of definition. There was undoubtedly much consultation - in both SDIs - during the start-up phase. However, one has to question the character and impact of the consultation. Who was consulted and how much "voice" or influence did different interest groups have? Clearly, there was much consultation with formal established interest groups. However, research on the ground, with a very wide array of sources, all point in one direction: grassroots actors, non-governmental organisations, community-based organisations etc. had little input. This is well documented and in the public domain, as exhibited by the bold assertion of the DTI Special Projects Manager quoted above.¹³⁰ In case this point is misunderstood, it needs to be stated quite clearly: in our research, on the ground, in numerous interviews with key participants, from the state and non-state sector, from local, provincial and national level, we came across no one who claimed that there was widespread consultation with local communities. It is suggested that this is one way in which the SDI methodology could be reappraised for the future. Indeed similar findings were discussed in

¹²⁵ ANC 1994 1.1 1 & 2.

¹²⁶ Quoted in Muloi, 1998 p16.

¹²⁷ Laurine Platzky 'Reconstructing And Developing South Africa: The Role of Spatial Development Initiatives', paper presented to the International Conference on Sustainable Regional Development. University of Massachusetts, Lowell 28 October 2000. Phrase also mentioned by several respondents in interviews.

¹²⁸ Interviews with Cape Town based NGOs specialising in community projects and capacity-building. Interview with a representative from the Provincial Development Council.

¹²⁹ Interview with Stan Visser, Director of Economic Planning, Blauwberg Council, September 19th 2000.

¹³⁰ Quoted in Muloi, 1998 p16.

research conducted in 1998.¹³¹ The author devoted considerable space to outlining the perceptions of a West Coast councillor who questioned the character of participation in early stages of WCII. For example it was noted that participation had largely been limited to those already "in the loop". The report continues "...the drivers of the SDIs needed to ensure that mechanisms were built in, in the form of parallel capacity building processes...that was the lack."

It should be noted that the post-Investor Conference, exit-phase of WCII was characterised by a sea change in approach to consultation. Incidentally, the effectiveness of this phase was greatly enhanced by the appointment of a WCII fieldworker with extensive local knowledge which, combined with his vision and diplomatic skills, earned him great respect amongst entrepreneurs, communities and officials. The more "innovative and new projects", such as the Paternoster Fish Market, have been structured around a more community-based approach. Many observers fervently hope that lessons learnt from such projects will enable similar developments to become fashionable within local and provincial government policy circles.

¹³¹ *Anonymous source.*

6. Time Frames and the Integration Process

SDIs are intended to be a short-term, fast track intervention acting as a catalyst for long-term growth. For a three to four year period, a designated project manager works with a small team of staff and consultants identifying potential projects, seeking investors and facilitating the development of key organisations and institutions on the ground. After this period of time, it is intended that provincial and local government carry on the work following the implementation of a transitional exit strategy. At first glance, such a sequence of events sounds entirely logical and appropriate, however there are problems.

WCII entered its exit phase in 1999 and, by the latter half of 2000, was itself contracting as staff were transferred to other posts within the province. WCII activities began the process of transfer into local and provincial governments. The loss of WCII's on the ground personnel has already impacted greatly upon the Saldanha/Vredenberg area. The ability of these individuals to network and bring key actors together was appreciated by various other role players. Such processes were aided by their personal qualities as well as the fact that they could devote all their attentions to these tasks, as this was what they were paid to do. In their absence, co-ordination of groups such as the LED Forum now falls to its members, all of whom have full time employment and therefore lack the necessary time and energy.¹³² Such bodies can quickly become marginalised and ineffective.¹³³

The WCII time frame also loses legitimacy when the process of change in South African local government organisation is considered. This is different from whether the WCII itself was compromised and has little or nothing to do with political discontinuity *per se* but is related to the procedural mechanisms of transition. Local councils have been transitional for some time as significant reorganisation is due to be implemented following the elections at the end of 2000. Considerable changes will be taking place in the spatial organisation and structure of local government. Restructuring of posts and officers will clearly lead to a temporary slow down in decision-making about issues such as local economic development. There will inevitably be a period of upheaval followed by gradual bedding in of the new arrangements. The success of WCII staff has led local councillors to the realisation that it would be appropriate to appoint an officer to manage and direct economic activity. Yet due to the changes in local government organisation it is thought unlikely that such an appointment could take place before July 2001 - leaving a hiatus of nearly a year without such support.¹³⁴ It would have perhaps been advisable for private funding to keep the local economic development officer in place until the local council was in a position to appoint one for themselves. The significant point from this is that the time frame ascribed to the SDI methodology should be more flexible and sensitive to local factors and conditions. It would have been preferable for WCII to continue operating until at least winter 2001 so that the transition could take place within the setting of the newly organised council arrangements.

It is unfortunate that such a problem was not foreseen and steps taken to ease the transition. In other words it hardly seems timely to transfer responsibility for continuation and completion of WCII projects before the political transition phase had taken place. Whilst one could argue that local administrators should have foreseen this problem and acted accordingly, local informants counter-claim that they were not aware of the brevity of the WCII's involvement and expressed shock when the integration process began. It is apparent that local government has been poorly prepared for either a decline in activity by WCII staff or an increase in activities required by its own departments. Indeed a senior source within local government indicated that he was unaware that WCII's activities were to be scaled back until the process actually started. WCII's project

¹³² Interview with Frieda Krohn, Saldanha Steel, October 3, 2000.

¹³³ Interview with Ben Veldman, former WCII exit strategy manager, September 20, 2000.

¹³⁴ Interview with John de Klerk, Town Clerk, West Coast Peninsula Transitional Local Council October 5, 2000.

manager is adamant that such information related to the integration was provided to all relevant parties.¹³⁵ Once again, communication between different levels seems compromised.

The process of transition has left WCII with a rather fuzzy identity. An entity called WCII still exists, as a spatially delineated area, through the symbolism of the WCII emblem which adorns WCII stationery emanating from provincial government and the WCII website amongst other things. As a brand name for investors, it is important that WCII is perceived to be a stable and durable entity. However with the loss of WCII as a central institution, there is potential for confusion and misunderstandings. Some observers have asked directly 'who is championing WCII now?'¹³⁶ Respondents spoken to within the West Coast have indicated that there has been a noticeable decline in the intensity of interactions with former WCII staff even though the ex-project manager and other ex-WCII staff are still responsible for various components of WCII activities in their new jobs.¹³⁷

It appears that the origin of the sequencing methodology lies within the DTI in Pretoria. It is unclear whether decisions relating to the precise timing of events came as a result of consultation and negotiation with those familiar with conditions on the ground. It certainly seems to be the case that key actors within the West Coast local government and business support services were unaware beforehand of significant events such as the transferral of WCII's project workers to other posts in the province. Therefore little time was available for interim measures to be devised. Virtually all respondents were in agreement that WCII's life span prior to integration was too brief. Issues of maintaining continuity in the process, and the transfer of knowledge invested in key individuals were repeatedly raised. Compounding this problem has been the inexplicable delay by the DTI in handing down the budget to the province as agreed.¹³⁸

¹³⁵ *Electronic correspondence with Laurine Platzky, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, May 2th 2001.*

¹³⁶ *Respondent asked to remain anonymous.*

¹³⁷ *For example, John de Klerk, WCPTLC, and staff at WCBDC.*

¹³⁸ *Electronic correspondence with Laurine Platzky, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, January 2, 2001.*

7. Summary of lessons learnt from both SDIs

In summary, if one were to abridge the lessons that may be drawn from the MDC and WCII processes thus far, a number of key factors can be identified:

- A well-defined and operating institutional and bureaucratic framework is required.
- An integrated and well-researched planning process is necessary - perhaps slowing down the fast-track approach.
- Capacity and training of bureaucrats involved in implementing policy is urgently needed.
- Capacity amongst previously disadvantaged entrepreneurs needs building up.
- Domestic private investment needs to be actively mobilised.
- A more coherent approach to poverty alleviation and questions of gender and racial inequality needs addressing.

In short, delivery along the MDC and the WCII has not been as effective as it could be due to the overtly top-down nature of the SDI process. The methodology of the SDI programme has paid too little attention to local conditions or realities. In addition, the overall time frame is unrealistic and there has been little engagement with addressing serious capacity problems, particularly at the provincial and local level, which threatens to sabotage coherent implementation. This is truer of the MDC than it is of the WCII. Furthermore, the effective centralisation and personalisation of key roles militates against effective hand-over during the exit phase and stimulates tensions surrounding questions of ownership. It is clear that political champions are required to advance much of the process, particularly regarding issues of empowerment. As one analysis of the MDC suggests, 'the success of programmes targeted towards objectives of empowerment or changing the structure of ownership of enterprises within the South Africa [economy] is ultimately reliant upon the existence of political will for transformation and not just a policy framework *per se*'.¹³⁹ The speedy time frame and rejection of the various "hockey clubs" that need consulting, coupled with the rapid withdrawal of energetic champions, militates against success on this score.

It is clear that the SDI concept can be seen as an ingenious one, which aims to maximise human and physical resources. This working paper has demonstrated many strengths within the methodology, such as strong project teams, thorough and well-organised approaches, excellent work building up certain forms of institutional capacity within the SDIs reviewed and emphasising skills development and education. However, it is also clear that there are lessons to be learned, as outlined above, which if acted upon could improve the delivery of ongoing and future SDIs.

¹³⁹ Christian Rogerson, 2000, p. 564.

Appendix: List of people interviewed/corresponded with

1. **Dr Alfredo Namitete**, Chairman, Committee of Senior Officials, Southern African Transport and Communications Commission, Maputo, April 6, 2000.
2. **Gordon Griffiths**, Chief Executive Officer, Mpumalanga Investment Initiative, Nelspruit, April 4, 2000.
3. **David Arkwright**, project manager, Maputo Corridor, Nelspruit, April 12, 2000.
4. **Francisca Henriqueta Soares**, transport economist, Mozambican Ministry of Transport and Communications, Maputo, April 10, 2000.
5. **Dr Milissão Nvunga**, lecturer at the *Instituto Superior de Relações Internacionais*, Maputo, April 7, 2000.
6. **Greg White**, head of Private Sector Investments, Development Bank of Southern Africa, Halfway House, April 14, 2000.
7. **Jonathan Mitchell**, Economist, Special Projects and Policy Unit, Mpumalanga Province, Nelspruit April 5, 2000.
8. **Wolfgang Thomas**, Chief Economist, Wesgro, Cape Town 4, 2000.
9. **Laurine Platzky**, WCII Project Manager, 15 September 2000.
10. **Laurine Platzky**, Deputy Director-General, Business Promotion, Department of Economic Affairs, Agriculture and Tourism, Western Cape, January 2, 2001 and 25th May 2001 (electronic correspondence).
11. **Trudy Mills**, Collen Lopez and Gert Van Zyl, WCBDC, October 3, 2000 and April 5th 2001.
12. **Frieda Krohn**, Saldanha Steel, October 3, 2000.
13. **John October**, Human Resources Manager (formerly Business Development Manager) Saldanha Steel, October 4th 2000.
14. **Ben Veldman**, former WCII exit phase manager, September 20, 2000.
15. **John de Klerk**, Town Clerk, West Coast Peninsula Transitional Local Council October 5, 2000.
16. **Pieter Pistorious**, Saldanha Steel engineer, Saldanha.
17. **Peter Jordaan**, former WCII exit phase manager, September 2000 and April 2001.
18. **Rianne Warie**, rural researcher/regional economist Wesgro, September 18, 2000.
19. **Stan Visser**, Director of Economic Planning, Blauberg Council, September 19, 2000.
20. **Rob Davies** MP, DTI, October 18th 2000.
21. **Maxwell Moss**, Saldanha MP, March 20th 2001.
22. **Karl Kloete**, NUMSA, March 23rd 2001.

23. **Louw Liebenburg**, NBI, March 16th 2001.

24. **Adrian Sayers**, Provincial Development Council, March 23rd 2001.

25. **Ebrahim Nackerdien**, Saldanha Bay Municipality, April 4th 2001.

Informal interviews with local business people, Nelspruit, April 3, 2000.

Information gleaned from informal conversations with informal traders outside Nelspruit, April 3 4. 2000.

Various interviews conducted with entrepreneurs, community leaders and local officials in Saldanha/Vredenburg October 2000 and March/April 2001.