

THE DEVELOPMENT AND APPLICATION OF A REGIONAL AND LOCAL ECONOMIC DEVELOPMENT ASSESSMENT INSTRUMENT

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–Abstract –

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Globally, local economic development (LED) is recognised as a strategic process that assists with the acceleration of economic development in local regions, in both developed and in developing countries. Economic development practitioners have a need for user-friendly assessment instruments and tools to analyse and compare economic development in regions. The aim of the study was therefore to develop and apply an instrument to assess the economic development potential of a region since such a comprehensive strategic and practical instrument does not exist. Various types of regions, from national to local, could be assessed and compared using the instrument. The development potential (DP) of a region has been formulated as the aggregate of all local resources (R) multiplied by the aggregate of local capacity (C); therefore $DP = R \times C$. Extensive research has led to the identification of variables contributing to the extent of the local resources and capacity. The methodology included the identification of variables representing capacity and resources and the allocation of values for each variable through a quantitative survey method which included 380 local business people. The instrument was tested in a developing region in South Africa known as the “Vaal-Triangle” region, which includes the municipal areas of Emfuleni, Metsimaholo and Midvaal. In testing and applying the instrument in the study region, it was found that all three areas had low economic development indexes of below 30 (where the maximum is 100). The instrument identified the variables responsible for this relatively low index and those factors need to be addressed in a LED strategy. In addition, the instrument could assist development practitioners to assess the economic development potential for a region and to formulate strategies to improve the potential.

Keywords: Assessment instrument, development potential, local economic development (LED), regional development, Vaal-Triangle region.

JEL Classification: O2, R11, R58.

1. INTRODUCTION

Local Economic Development (LED) as a strategic development instrument has the potential to ensure the optimal utilisation of local resources and capacity to improve economic conditions in a specific region through job opportunities and the improvement of the quality of life there (USAID, 2006). Romer (1986) states that economic development can potentially occur when local people utilise and arrange resources in such a way that they are more valuable and effective to local communities. The optimal use of local resources is a major challenge for local economic development decision-makers (World Health Organization (WHO), 2014). The aggregate of the economies of all regions in a country constitutes the building blocks of a national economy. Therefore, towns, cities, metropolitan areas and all regions need to take responsibility for their economic future within the overall national economic policy. Local and regional role players such as government and local businesses need to assume the challenge and seize opportunities through assessment of the local economy and formulation of local development strategies for implementation (Leigh & Blakely, 2013). A region's economic development potential and ultimate success are dependent on its ability to use its resources and capacity effectively and to adapt to local, national and global changes to stay competitive (USAID, 2006). Within this challenging environment, the coordination and cooperation of all role players is vital for success, as is the role of local government in the creation of an enabling environment in which local business and communities may prosper (Meyer, 2014).

Economic development planners have a need for economic development assessment instruments to assess local regions and also to compare specific regions in both developed and developing regions (Stimson, Stough & Roberts, 2006). In an analysis of existing instruments, it was determined that a gap exists for a practical and user-friendly development assessment instrument. The aim of this article is consequently to formulate and apply a local development assessment instrument to determine the development potential of a local region. The intention is to relate theory to practice with an applied assessment instrument. As indicated by Carroll and Blair (2012), LED is an applied research field with the distinction of theory and practice being untenable in most cases. Economic development

practitioners find it difficult to assess local economies and this instrument could assist in this process, as well as in the comparison of regions (Leigh & Blakely, 2013).

2. LITERATURE REVIEW

In this section, concepts, definitions and approaches concerning the design and formulation of an economic development assessment instrument, are analysed. Concepts such as local economic development (hereafter LED), development potential regarding resources and capacity as well as the enabling environment are analysed. Many definitions of LED exist globally. Trousdale (2005) defines LED as all the economic actions and initiatives, attempted and implemented by members of a local community in order to achieve improved quality of life and to create sustainable economic opportunities for all, including the poor. In an interesting analysis, USAID (2006) analysed the concept of LED. According to this body, "*Local*" signifies the existing capacity and potential of endogenous knowledge and processes; "*Economic*" focuses on the recognition of investment opportunities, entrepreneurship development and development of local markets; and "*Development*" relates to a process of improving quality of life and the creation of employment opportunities. Ruecker and Trah (2007) declared that LED is an ongoing process in which all local stakeholders from public and private sectors work together to create unique location advantages, to ensure the specific locality is superior to other localities with different resources and capacity. Finally, Leigh and Blakely (2013) list a number of objectives of LED which include an increase in the standard of living over time; the reduction of local inequality; achievement of economic stability with a diverse economic base and lastly, the sustainable use of resources and extension of capacity.

From the definitions of LED, it seems that the economic development potential of a region could be determined through the existing and potential resources and capacity of the region (Pillay, 2013). As Leigh and Blakely (2013) note, for a local economy to develop, resources need to be optimised and the capacity needs to be increased. Lawson (2012) also indicates that organisational and institutional capacity and local resources are important for the successful facilitation of the LED process. In South Africa, local government, through the Constitution of 1996 (South Africa, 1996), is tasked to be developmental and to ensure LED. The

International Labour Organization (ILO)(2006) links LED and resources by stating that LED is a process to find solutions to the threat of globalisation for local regions and to maximise the effective utilisation of local resources to stay competitive. Rogerson (2009) agreed, when he added that the challenge for LED processes is to find ways to optimise local resources, including local knowledge. In terms of LED resources, the following variables have been identified: availability of natural resources; land and buildings; strategic locality; availability of labour (skills levels, and potential labour workforce); capital investment; infrastructure development; entrepreneurship; transport; communication; industrial sector composition; technology; size of economy and local market; export market and finance and funding as well as government spending. In most cases, especially in developing regions, resources are underutilised; with high levels of developmental capacity, such a region can experience a revitalisation in development (Leigh & Blakely, 2013).

The United Nations Development Programme (UNDP) (2008), defines capacity development as a process where individuals, organisations and societies obtain, strengthen, and maintain the capabilities to set and achieve their development objectives over time. The UNDP (2010) later adds that the capacity of local people and institutions needs to be strengthened for them to effectively achieve their developmental objectives. Specifically, it is important to note the lack of human and capital capacity within local government in South Africa, leading to poor LED success (Nel, 2001). Local economic development capacity factors, according to Leigh and Blakely (2013) include the economic, social, technological and political aspects of capacity. Capacity factors also include local management structures of all three groups of role players, government, business and community, which involves the capacity for research and development, government support for business and community development. Other factors of capacity include governance, business, infrastructure, social services, technology, innovation, education, politics, entrepreneurship, the size of the economy, community and partnerships. Table 1 is a summary of the development potential variables for resources and capacity as identified through the literature review process.

According to Leigh and Blakely (2013), a region can only achieve high levels of economic development when a positive business climate exists. For the purpose of this research, the concept of an “*enabling environment*” is used to analyse the

local governance and business climate. Local government is an important and leading role player in the local economy. Such roles can include provision and development of leadership; development and implementation of policy; assistance with the creation of an enabling economic development environment; formulation and facilitation of the implementation of LED projects; support of entrepreneurs and small, medium and micro enterprises (SMMEs) in the region; formulation of innovative solutions for local challenges and maximising the sustainable use of local resources and potential as well as the development of local skills (Department of Provincial and Local Government, 2006; Department of Cooperative Governance, 2014).

Table 1: Economic development variables for resources and capacity

Resource variables (R)	Capacity variables (C)
- Natural resources such as minerals, land and natural beauty of nature.	- Governance , the capacity of governance in the region, research and development (institutional capacity).
- Strategic locality close to economic activity corridors and nodes.	- Business , the capacity of business sector in the region.
- Availability of labour taking into account the size of the labour force and skills levels (employment and unemployment levels).	- Infrastructure regarding hard and soft infrastructure.
- Investment in capital.	- Social services including all social-welfare and community facilities.
- Transport systems including roads, rail, shipping, air.	- Technology and innovation availability, including research and development.
- Communication systems.	- Education capacity from primary to higher education.
- Industrial/manufacturing composition and size.	- Politics and local leadership.
- Export focus.	- Entrepreneurship capacity and small business development.
- Government spending.	- The size of the local economy.
- Market size and composition.	- Community development.
- Finance and credit.	- Partnership formation capacity between government, communities and business.

Source: Leigh and Blakely: (2013) and USAID: (2006).

Before local government can attempt to create an enabling environment, a number of challenges must be addressed. Some of these include the skewed spatial settlement patterns, an unequal distribution of economic and social activities, financial instability and poor capacity (South Africa, 1998; South Africa, 2014). Christy *et al.*, (2009) define an enabling developmental environment as policies, institutions, support services and other conditions that together attempt to improve

the general business environment where enterprises and business activities can start, develop and thrive. Such an enabling environment boosts the competitiveness of a specific region or area (Konig *et al.*, 2013).

According to the South African National Development Plan (NDP), as compiled by the National Planning Commission (NPC)(The Presidency, 2012), the role of government in the development process is to ensure that barriers that could impact negatively on development are removed, as well as providing effective leadership and facilitating co-ordination with effective service delivery. In cases of market failure, government should be able to step in through, for example, skills training and infrastructure development. High levels of capacity and skills levels are, however, required of governments to successfully facilitate development. The improvement of capacity for local government is one of the goals of the National Development Plan (NDP) in South Africa. Increased capacity and skills lead to increased service delivery. According to Leigh and Blakely (2013), local government can create an enabling developmental environment by limiting local bureaucracy, upgrading infrastructure, the provision of training and skills programmes and information, as well as by ensuring law and order. Government can also assist in supporting existing businesses, attracting new businesses and finding export markets. According to the National Research Institute (NRI, 2006), LED interventions should focus on the encouragement of local participation and consensus, with the purpose of determining economic and social welfare initiatives for the local community and promoting local partnership formation. LED processes have a chance to achieve success solely if an enabling environment to stimulate new opportunities for economic growth exists in the region.

According to Trousdale (2005), good governance is needed in order to establish an enabling developmental environment. The former concept relates to effective institutional capacity in both management and administration. Good governance also includes the ability to co-ordinate and facilitate and to assist with implementation of policies, projects and action plans. It also includes public participation, institutional development and transparency in decision-making processes. It reinforces LED and the provision of an enabling developmental environment is the critical link between the two concepts (Meyer, 2014). Table 2 contains a list of the factors needed for the local government to create an enabling environment so that local businesses may prosper.

Table 2: Factors in the creation of an enabling developmental environment

Factors	Factors
Partnership formation	Local government structures, policies and actions
Local leadership	Poverty alleviation and social development (including arts, culture, sports and recreation)
Economic development actions including LED	Environment management and spatial development
Infrastructure development	Human resource development
Entrepreneurship development	Access opportunities including transport
Agricultural development actions (rural areas)	Safety and security

Source: Meyer: (2014).

The factors for the creation of an enabling environment as listed in Table 2, were also taken into account in the development of the factors of resources and capacity for local development as listed in Table 1. It should be noted that some overlapping has occurred between the two sets of factors. This occurrence is possible because both sets of factors have regional and local development as their aim. The factors as listed in Table 1 were used for the development and application of the LED assessment instrument.

3. METHODOLOGY AND APPLICATION

The research design is based on a functionalist theoretical paradigm and a quantitative methodology. Although the author has made an effort to list all the major economic capacity and resources variables in Table 1, the list is not exhaustive and more variables could be added. The assessment of a local region could be based on either a quantitative or qualitative process or a combination as a mixed method (WHO, 2014). The most appropriate method should be selected and in this case a quantitative approach was chosen. In the case of a qualitative assessment, focus group interviews are recommended as the prescribed method. The method used in this study was a quantitative survey by means of a questionnaire which included a descriptive section and the scale as listed as Table 1. Data were collected by trained field workers. The variables in the scale were scored by using a continuous measurement scale. The measurement scale ranges from 0 to 10 as specified in Table 3. A score of 0 indicates a region has no (zero) capacity or resources, a score of 5 indicates average levels and a score of 10 indicates ideal and maximum availability of capacity and resources.

Regarding the potential of economic development, Leigh and Blakely (2013) listed a formula for the calculation of the potential for a region. The formula, as proposed is stated as:

$$\text{Economic Development Potential (DP)} = R \times C,$$

where R equals local resources, and C equals local capacity. The process, as suggested for the calculation of the development potential, is formulated as follow. Scores are allocated by selected participants to all of the variables using the measurement scale in Table 3. Scores per variable are tallied out of a maximum score of 10 for full compliance, or 0 for total failure regarding a specific variable.

Table 3: Measurement scale

0 – No capacity/resources and having a major negative impact on development	1 – Insufficient levels with a negative impact on development
2 – Limited levels with a negative impact on development	3 – Below acceptable levels with a negative impact on development
4 – Below average levels with negative support for development	5 – Average levels in favour of development
6 – Above average levels in support of development	7 – Good, acceptable levels in support of development
8 – Very high levels in full support of development	9 – Close to maximum levels, in full support of development
10 – Full, and abundance of, capacity/resources at maximum possible levels	

Source: Own compilation.

The various scores were added and an average score was calculated for both capacity (C) and resources (R). This average score would be equal to an average score out of 10. The average score for capacity would then be multiplied by the average score for resources (see Annexure 1 for an applied example). Regarding this calculation, it is possible to calculate an index of economic development potential with a maximum score of 100 and a minimum score of 0. The index classification is listed in Table 4. This index makes it possible to allocate a development index classification to a region in one of three categories depending on the overall score achieved.

Table 4: Index classification

Index classification	Index scores
High development potential	70 to 100
Medium development potential	40 to 69
Low development potential	0 to 39

Source: Own compilation.

For example, a region that is strong regarding capacity, could score an average of 9 for capacity (C) out of 10, but could be struggling regarding local resources with a low score of 3 for resources (R) out of 10. If the formula is applied, the region would have an index of 27 ($DP = C \times R$), resulting in a low economic development index according to the classification in Table 4. Both sets of variables, therefore, need to be strong to have a high development potential index. A region with a capacity (C) score of 7 and a resource (R) score of 9 would have an index of 63 ($DP = 7 \times 9$), resulting in a medium economic development index. Utilising this assessment instrument, regions could be compared and variables which have a negative impact on local development, could be identified and addressed by means of strategy development and implementation. A total index of below 39 could then be regarded as low and all the variables with low scores would need to be addressed in order to improve the index. Lastly, all resource and capacity variables in the scale were allocated equal weights.

In the application of the instrument, the “Vaal-Triangle” region, consisting of Emfuleni Local Municipal area, Midvaal Local Municipal area (both Southern Gauteng Province) and the Metsimaholo Municipal area (located in the Northern Free State region) were selected. The region was selected due to the fact that the region has been under pressure economically with an unstable political environment. In addition, the region is internationally known for its locality north and south of the Vaal River and as an important industrial hub in South Africa. The study area is a developing region on the periphery of the Johannesburg Metropolitan economic influence region. The area includes the cities and towns of Vanderbijlpark, Sebokeng, Sharpeville, Vereeniging, Meyerton, Sasolburg and Zamdela. Figure 1 provides a locality plan for the study region. Major industries include the traditional and mega industries of Sasol Industries, Arcelor Mittal

South Africa (AMSA), Samancor and Heineken Breweries, which dominate the local economy.

Figure 1: The study region



Source: Sedibeng: 2013.

Table 5 provides a summary of the main socio-economic indicators in the study region. The three areas form a functional economic region, with the Vaal River flowing through the region, allowing for major tourism opportunities. The Vaal River is a major water body and is mostly underutilised for transport and tourism purposes, it holds huge economic development potential. The combined population of the study region is approximately 1 015 000 people. The region has similar characteristics in terms of type of industries with manufacturing being the dominating, but declining sector. Both the Metsimaholo and Midvaal areas have shown higher growth rates than the Emfuleni area. The Metsimaholo area has a much higher regional GDP per capita if compared to Emfuleni and Midvaal areas. Unemployment rates in all three areas are high, with the Emfuleni region's unemployment rate being above 50 percent.

Table 5: Summary of key socio-economic indicators for the study region (2016)

Indicator	Emfuleni area	Metsimaholo area	Midvaal area
Total population	740 900	168 300	107 400
Population growth 1996 to 2016 per annum	0.9%	2.7%	4.4%
Number of people in poverty (% of people living in poverty)	369 761 (49.8%)	77 200 (45.8%)	33 500 (30.8%)
Regional GDP (R 1 000 000)	R 32 300	R 28 900	R 6 560
Regional GDP growth 1996 to 2016 per annum	1.1%	3.4%	3.8%
Regional GDP growth	- 0.6%	2.2%	1.5%
Number of unemployed people (unemployment rate in brackets)	301 700 (54.7%)	21 113 (25.3%)	16 776 (30.5%)
Number of employed people	169 600	58 038	37 129
Regional GDP per capita	R 43 595	R 171 717	R 61 080
Average household size	3.19	3.12	3.12
HDI	0.66	0.66	0.71
Gini-coefficient	0.62	0.63	0.63
Population density (people per square km)	767	98	63
Household infrastructure index	0.74	0.73	0.74
Composite crime index	92.8	127.6	119.6
Location quotient for manufacturing sector	1.96	2.98	1.31
Annual average income per capita	R 49 232	R 62 111	R 99 263
Total exports 2016 (R 1 000 000) (in brackets the % contribution of exports to GDP)	R 5 122 (11.5%)	R 1 067 (2.7%)	R 1 328 (14.3%)
Total tourism trips to region	67 300	43 211	28 400

Source: Own compilation from Global Insight: (2016).

In the assessment of the development potential for the region, a quantitative process was followed. A workshop was held on 30 June 2016, where approximately 380 local business people completed a questionnaire which included the aforementioned measurement scale for the three areas in the study region. Annexure 1 is a presentation of the results of the survey (development assessment) for the study region with a comparison of the three areas. The means for each variable was calculated, as well as the means of all the variables for both resource and capacity. A summary of the development potential scores as calculated in Annexure 1, is listed per area (0 is minimum and 100 is maximum):

- Emfuleni area: $5.36(R) \times 6.33(C) = 33.9$ Development Potential index
- Metsimaholo area: $5.18(R) \times 5.08(C) = 26.3$ Development Potential index
- Midvaal area: $5.18(R) \times 5.33(C) = 27.6$ Development Potential index

The development potential indexes for all areas are relatively low so that all could be classified as areas with a low economic development potential index.

4. DISCUSSION

For the specific study region, the assessment in Annexure 1 indicates the problem areas as well as areas where success have been achieved. Areas of concern in the study region are the limited availability of natural resources; limited capital investment; poor public transport, especially taking into account the long distances impoverished people must travel due to spatial inequality and low densities; diminishing exports; relatively limited markets; limited access to finance; lack of infrastructure capacity and maintenance; poor governance and political instability. The two resource variables that scored the lowest average score were public transport with a score of 3 and government spending with a score of between 2 and 3. In terms of capacity, the two variables what were scored the lowest by participants were lack of good governance and political stability (although the Midvaal area is an exception on these two issues). Areas of positive development are the strategic locality; availability of labour, although low skills levels exist; strong industrial composition; many education facilities of quality; strong business organisations and leaders; high levels of concentrated innovation and the formation of partnerships. The two resource variables that scored the highest average score were availability of labour with a score of 7 to 8 and the strategic locality with an average score of 7. In terms of capacity, the two variables what were scored the highest by participants were partnerships and innovation.

The improved use of resources and development of capacity should form the basis of a LED strategy for the region (Leigh & Blakely, 2013). Local Economic Development as a localised strategy has the aim of attempting to ensure the optimal use of local resources and capacity, which will lead to economic development (Romer, 1986). In addition to the optimal use of resources and capacity, local coordination of all economic activities is also of vital importance (Rosenstein-Roden, 1943).

Assessment instruments assist LED practitioners to assess the current level of development and the future potential of a region (Purdue Centre for Regional Development, 2016). The process could be qualitative using interviews with key role players in the region, providing subjective scoring. Alternatively, the process could include both qualitative and quantitative scoring as a mixed method. The assessment is easy to use and could be achieved in a relatively short time. Various local regions could be assessed and compared in both developing and developed countries. The assessment also allows for critical analysis of the local resources and capacity, especially if this is combined with the factors for the creation of an enabling environment (Table 2), which is the responsibility of local government in partnership with the local private sector.

5. CONCLUSIONS

The development and formulation of this assessment instrument had as its overall aim of devising a practical and simple tool to apply in practice (Carroll & Blair, 2012). The implications of the research are that the economic development instrument as formulated is new and innovative and could assist economic development practitioners to identify problematic issues more rapidly and assist in the compilation of development strategies. It could also allow them to compare regions. The study focused on the Vaal Triangle and found that the region could be classified as a region with a low economic development index. Specific sectors and areas were also identified which need to be addressed through strategy development. The instrument may be applied qualitatively and/or quantitatively, depending upon the specific research design selected and the availability of relevant data and information.

A key factor in successful economic development is institutional capacity (Lawson, 2012). Institutional capacity in this sense could include the capacity of the local government in general, local business organisations, community organisations, NGO's, and so forth. The coordination and partnerships allow for a multiplier effect in terms of local capacity and dynamic development as proven by the "Big Push Theory" (Rosenstein-Roden, 1943). This increased capacity also leads to improved service delivery at the local level. In support of the above statements, Trousdale (2005) also prioritises good governance as a key factor in the developmental process. Therefore, and in conclusion, good governance will

lead to an enabling environment which is a requisite for local economic development success.

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Annexure 1: Quantitative assessment of development resources(R) and capacity(C): Comparison of Emfuleni, Metsimaholo and Midvaal areas

Resource (R)	Emfuleni Score (between 0 and 10)	Metsimaholo Score (between 0 and 10)	Midvaal (between 0 and 10)	Capacity (C)	Emfuleni Score (between 0 and 10)	Metsimaholo Score (between 0 and 10)	Midvaal
Natural resources	*(5) Limited minerals in the region, but the Vaal River exists	(6) Minerals such as coal are found and the Vaal River is a resource	(5) Limited minerals, but the Suikerbos Reserve and Vaal River are resources in this area	Government	(4) Lack of acceptable good governance	(3) Lack of acceptable good governance.	(8) Good levels of governance
Strategic locality	(7) Within the Gauteng Province	(6) Located outside of Gauteng	(8) Located within 60km of Johannesburg CBD	Business	(8) Strong business sector and leaders	(5) Strong business sector but less leadership	(4) Limited business development with lack of leaders.
Availability of Labour	(8) Large labour force is available in townships of the Vaal	(7) Smaller but large labour force available in Zamdela	(7) Labour force available in townships such as Sicelo, Lakeside, Orange Farm	Infrastructure	(4) Large backlogs	(3) Large backlogs	(4) Large backlogs
Investment	(5) Lack of capital investment by major companies	(6) Capital investment by Sasol industries	(6) Capital investment in R59 development corridor	Social services	(5) Average community facilities.	(5) Average community facilities	(6) Better than average community facilities
Public Transport	(3) Limited public transport available	(3) Limited transport available	(3) Limited public transport available	Technology	(8) Above average with universities.	(7) Above average because of Sasol industry	(4) Limited technology
Communications	(5) Average levels, with weak mobile data speed	(4) Just below average levels, but strong mobile systems	(4) Just below average levels, but strong mobile systems	Innovation	(8) Above average with universities.	(8) High level because of Sasol industry.	(4) Limited levels of innovation
Industrial composition	(8) Strong sector, dominating but stagnating	(7) Strong sector, dominating but stagnating	(6) Smaller sector but growing	Education	(9) High levels with many institutions	(6) Above average access	(4) Limited access to education
Export	(5) Diminishing over the last few years	(7) Strong export sector dominated by Sasol	(6) Smaller export but growing	Political	(3) Instability.	(2) High levels of political division	(8) Stable political situation
Government spending	(4) Below average, lack of budget	(3) Below average, lack of budget	(4) Below average with a lack of budget	Entrepreneurship	(6) Above average with support.	(6) Above average with support	(5) Limited support.
Markets	(6) Large local market	(5) Smaller local market	(4) Very small local market	Size of economy	(7) Large economy and specialised, but stagnating	(6) A medium large economy, and specialised, but stagnating.	(4) Small economy but growing
Finance	(3) Limited access to finance	(3) Limited access to finance	(4) Limited access but more positive outlook	Community	(6) Good involvement	(6) Good involvement	(5) Average involvement
				Partnerships	(8) Strong between and within the public and private sector.	(4) Average partnership formation	(6) Average partnership formation
Average Total score	**R = 5.36 (or 53.6%)	R = 5.18 (or 51.8%) (or	R = 5.18 (or 51.8%)	Average total score	C = 6.33 (or 63.3%) (or	C = 5.08 (or 50.8%)	C = 5.33 (or 53.3%)
Final result	Emfuleni area: 5.36(R) x 6.33(C) = 33.9 index		Metsimaholo area: 5.18(R) x 5.08(C) = 26.3 index		Midvaal area: 5.18(R) x 5.33(C) = 27.6 index		