



# LOCATI- Newsletter

No. 6, May 2003



## LOCATI and PACA: Complementary German technical assistance activities

LOCATI is not the only LED-related activity in Mpumalanga which is sponsored by German technical assistance. LOCATI is closely interacting with other projects. The most visible cooperation activity was an LED Training in White River in March 2003 which was jointly sponsored by InWent (which is funding LOCATI) and GTZ. This training drew heavily on experiences gathered during the LOCATI project. The demand for participation in the training was massive – we had more than 70 applicants and in the end increased the number of participants from the 16 we had envisaged to no less than 28. Unfortunately, we had only six participants from Mpumalanga, even though the people involved in LOCATI were the first to be invited.

Another indication of the cooperation between different German agencies is the fact that, metaphorically speaking, Jorg Meyer-Stamer is wearing different hats these days. He is involved in both InWent and GTZ activities. One of the GTZ-sponsored activities was the PACA Exercise he and a group of

local stakeholders conducted in November 2002 in Kabokweni, a part of Mbombela municipality. PACA stands for Participatory Appraisal of Competitive Advantage. It is a method developed by Jorg to conduct a quick scan of a local economy or parts thereof and identify opportunities for practical LED activities.

One important finding of the PACA in Kabokweni: rather than being a predominantly residential area, a township is full of business activities. In the specific case of Kabokweni, some of them are quite visible, since there are two MEEC-managed business estates in the township. However, the vast majority of businesses is much less visible, taking place at home or in the backyard – and in fact most businesses prefer to be invisible since this is one of the precautionary measures against crime, which is perhaps the biggest problem for businesses in Kabokweni.

Another important finding of the PACA: There are practically no opportunities for business people to meet, discuss business and exchange information. Most of the mini-

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workshops we organised gave rise to animated discussions among business people, and we concluded that organising an opportunity for businesses to meet was possibly the most important LED activity for Kabokweni – and an activity which fits perfectly with the criteria applied when defining proposals at the end of a PACA exercise: use local resources, implement it quickly, and see visible results swiftly. The Kabokweni Business Meeting is starting to become an institution, being held on a monthly basis and involving an increasing number of local business

people who are driving the agenda of the meeting.

In order to make the PACA methodology more easily available, a PACA Training will take place in Hazyview in the first week of June. As usual, it will not only consist of classroom training but also have a practical side: we will look into LED opportunities around the tourism sector in Hazyview. We will have 18 participants, four of which will be from Mpumalanga, namely Dumi Mhlongo, Nozipho Ngwenya, Gay Mokoena and Rehana Pilodia.

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### Topic of the Month: What is a good LED project?

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The main question during the LOCATI Network meeting in Barberton in February 2003 was: What is a good LED project? It quickly became clear that it is not at all easy to answer this question. For instance, guidance given by government is inconsistent: In some documents, it is indicated that LED should focus at business. But then there are the regulations of the LED Fund, which introduce a strong social focus for LED projects. This takes us to a closely related question: What exactly is the difference between a business and an LED project? Many LED projects are merely quasi-businesses, which differ from real businesses in two respects: there is little or no entrepreneurship, and there is no clear bottom line. Think of the

countless bakery, chicken-raising or brick-making projects which never turn into viable businesses – but instead create unfair competition for existing businesses. This leads us to a first criterion for a good LED project: **It must not create unfair competition for existing businesses** (which cannot rely on the LED Fund or other sources of subsidies), and **it must also not damage other LED projects** (which happens if successful projects are replicated – and the local market is flooded with, say, organic broccoli so that the price collapses).

What other criteria are there for good LED projects? During the LOCATI Network meeting, we identified two types of criteria. There are general

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**Local Competitive Advantage Training Initiative / Mpumalanga**  
A programme implemented on behalf of InWEnt (formerly CDG,  
[www.inwent.org](http://www.inwent.org)) by IFOK ([www.ifok.de](http://www.ifok.de)) and PACA ([www.paca-online.de](http://www.paca-online.de))

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criteria that relate to the features you would like to see in LED projects, such as having clear leadership, mobilising the community, creating new capacities and broadening skills. But these criteria are not specific for LED projects; other projects, such as poverty alleviation projects, should fit these same criteria as well.

So there has to be a second type of criteria, which define how to distinguish good LED projects from other projects. Basically, there are five main criteria:

**1. Good LED projects make local markets work by removing barriers to entry.** The basic idea is that all businesses become more competitive, and customers get a better deal, if there is more competition. However, the idea is not to subsidise new entrants, but rather to enhance their skills and to remove some of the barriers they are facing. Examples for projects along these lines are the following:

- entrepreneurship skills programs,
- mentoring programmes, where experienced business people look after start-up entrepreneurs, and business angel schemes, where established business people and managers even take a capital stake in start-up companies,
- organized subcontracting, where outsourcing opportunities created by large corporations are system-

atically leveraged to stimulate local start-up businesses,

- targeted business estates, in particular for small businesses, to reduce the massive security problems which are today endangering firms, in particular in townships,
- targeted infrastructure development, for instance improved quality phone lines to townships so that township businesses can use the Internet as a business tool,
- promotion of business development services, such as local business service centres as a for-profit activity,
- creating a business idea info service and business fairs, and attract franchises in a targeted manner, in particular to townships.

**2. Good LED projects make local markets work by resolving information problems.** It is a common problem that businesses are not aware of locally available suppliers and customers. Some project ideas to remedy this are the following:

- informal and formal get-togethers where business people can meet,
- business networking activities which target specific sectors or value chains,
- the creation of a local business directory (as a for-profit activity),

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- a local business fair where companies can advertise their products and services,
  - a real estate information system which indicate publicly and privately owned land which is for sale,
  - locational marketing to attract external investors,
  - a labour market information system, matching schemes, and skills fairs.
- 3. Good LED projects make local markets work better by amplifying supply or demand in a targeted way.** Certain business opportunities are not taken up, and sometimes those may be activities which are critical for the growth of the local economy. Examples are
- attracting specialised suppliers and service providers which fit into the profile of the local economy,
  - needs- and bottleneck-driven skills development, rather than supply-driven skills development which is based on invented or imagined rather than identified needs.
- 4. Good LED projects remove bureaucratic obstacles to doing business.** In particular, local government should strive to
- remove unnecessary regulations,
  - streamline licensing and permit processes,
  - create a first-stop or one-stop agency where businesses can settle all their transactions with the public sector.
- 5. Good LED projects make improved use of locally available resources.** Instead of focusing LED projects at costly activities where you rely on external funding, look at available resources. Often these are not exploited in an optimum way:
- skills: you can create business working groups where business people help each other – rather than relying on expensive external consultants,
  - finance: you can go for sponsoring by corporations, business angel schemes, and credit cooperatives to mobilise the locally available funds – rather than waiting endlessly for decisions by external funders,
  - materials: you should consider solid waste recycling and biomass recycling as business opportunities to make better use of locally available resources – rather than just burning your biomass and dumping your waste,
  - innovation: as you get more sophisticated in your LED management skills, you can think of cluster and value chain initiatives to mobilise local companies and improve their competitiveness.