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Abstract

The paper builds on a regional economic development framework that was developed as an advisory guide to regional governments internationally; as part of a UN-Habitat funded project. The original framework was based on ten case studies that served as illustrations of the implementation of the introduced economic development mechanisms. This paper provides an in-depth investigation into the practical aspects of the mechanisms through a case study at the provincial government level in South Africa; at the Western Cape Department of Economic Development and Tourism (WCDED&T). We consider the evolution of the system over a 20-year period and develop an argument that the economic development support mechanisms in the Province have now been developed up to a satisfactory point so that greater focus for an innovation function and focus may be put into play. The case places the originally suggested mechanisms for regional development within a wider framework for economic development mechanisms that are available to regional governments; by mapping and synthesising mechanisms through which innovation can be stimulated at the regional level. The paper outlines the key considerations and trade-offs in the design of such mechanisms.

Introduction

- The presentation builds on a regional economic development framework that was developed as an advisory guide to regional governments internationally as part of a UN-Habitat funded project. The original framework was based on ten case studies that served as illustrations of the implementation of the introduced economic development mechanisms.
- This paper provides an in-depth investigation into the practical aspects of these mechanisms through a case study at the provincial government level in South Africa; at the Western Cape Department of Economic Development and Tourism (WCDED&T).
- We consider the evolution of the system over a 20-year period and develop an argument that the economic development support mechanisms in the Province have now been developed up to a satisfactory point so that greater focus for an innovation function and focus may be put into play.
- The case places the originally suggested mechanisms for regional development within a wider framework for economic development mechanisms that are available to regional governments; by mapping and synthesising mechanisms through which innovation can be stimulated at the regional level. The presentation outlines the key considerations and trade-offs in the design of such mechanisms.

Agenda

- Problem statement, Methodology and Literature review
- Case study: The Western Cape Department of Economic Development & Tourism
- Conclusion, suggestions and generalizability

The problem statement – why is it difficult for provincial government to support strategic innovation?

- Innovation is also widely perceived to be an “esoteric”, “faddish” and/or “sophisticated”
- Many economic development specialists in SA remain unsure of how best to approach this on the regional government level.
- Systemic weaknesses of the regional innovation system have not been assessed systematically
 - Weaknesses unknown
 - Prioritisation of activities not clear
- Evaluation mechanisms traditionally output focused more recently become more outcome focused
 - Evaluation of systems change interventions in innovation system interventions not well developed or understood
- The development of strategic plans for innovation on the regional level new focus in SA
 - Initiatives implemented on regional level individual projects without coherent overarching framework
- Structures of departments lack qualified individuals – this means no clear roles and responsibilities

Sources: (Koschatzky and Gundrum, 1997)(Primary interviews)

Methods – multi-methods

- Literature review
- Previous book project with 10 case studies
- Experience and outputs gained from projects completed for two provincial government economic development projects
- Discussions with three Economic Development specialists - best-practice mechanisms in provincial government departments of economic development
- An interview was conducted with 2 economic development experts in a boundary spanning role in the WC province with membership across various spheres of government.

What is a framework? What is the objective?

What is a framework?

A *framework* is a broad **conceptualisation of an issue under focus**. It can be used to **organise thinking and therefore the investigation**.

A framework may outline a list of **ideas/variables/mechanisms** that one may regard important **to the end of supporting the development of questions** to be addressed.

The objective of this study

Building on existing mechanisms in WCDEDAT, we develop a framework for the integration of innovation support activities and provide a list of mechanisms and activities to be considered for stimulating innovation activities in the WC.

Sources: Ostrom et al's (1994)

Innovation support on the Provincial level in South Africa

- The application of economic tools such as entrepreneurship, trade and investment support , competitiveness upgrading and general business support is more mainstreamed than innovation on regional level in South Africa.
- Embedding innovation as a focus is merely a shift in accent and emphasis that is required:
 - Not a complete overhaul of the system – there is already aspects of innovation support that is taking place on cluster level
 - Needs now to be done more systematically
- The innovation support function is cross-cutting and not a separate function with major governmental support mechanisms mostly centred in national government
 - This makes the support on the provincial level difficult but there are mechanisms to regional government's disposal outlined in our case study

Innovation not yet widely recognised as role of provincial government in South Africa

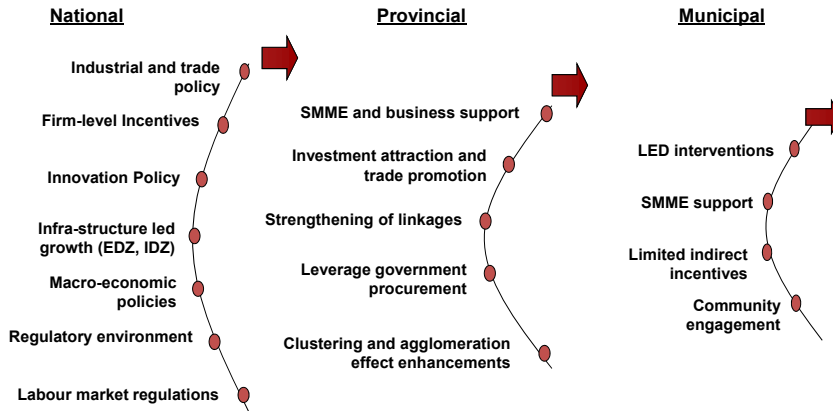
Table 2: Provincial economic aims and objectives

Provinces mentioning objective		Provinces mentioning objective	
Growth	9	Shared/inclusive growth	4
Employment	9	Poverty reduction	4
Sustainable growth	8	Informal/second economy	3
Diversification	6	Transformation	3
Global competitiveness	5	Good governance	3
Knowledge economy	2	Food security	2
Higher value added	2	Environmental sustainability	2
Local linkages	2	Decent work	1
Regional competitiveness	1	Broader econ. participation	1
Productivity	1	Livelihoods	1
Innovation	1	Spatial balance	1
Enterprise	1	Wealth redistribution	1

Source: Provincial survey responses and strategy documents.

Source: (Turok, 2012)

The Economic Development Tools available to the different spheres of government



Provincial government has limited economic development tools and mechanisms to its disposal

Source: Department of Economic Development and Tourism of the Western Cape

Implication of these trends

- Many economic geographers, economists and policy-makers have started to acknowledge that **the importance of location has actually increased with globalisation.**
- The **role of location and the city or region** has become **central to debates on economic development.**
- It is about **city and regional competitiveness**

Source: Martin, R., Sunley, P., (2003); Coyle, D., (2001). Krugman, P., (1997). Scott, A.J. (1998)

The systems of innovation approach provides a useful analytical framework for strategy development

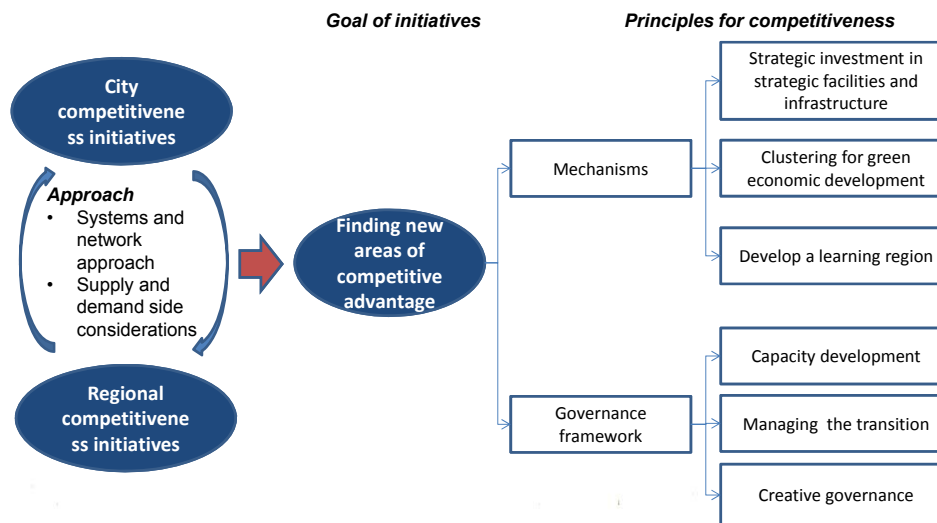
A useful analytical framework

Substantive theoretical elements

- The systems of innovation approach is not a theory, it provides an *analytical framework* for the development of a regional innovation strategy
- Therefore to analyse regional innovation systems it is also important to integrate substantive theoretical elements such as:
 - evolutionary economic theory
 - regional science
 - the industrial district concept
 - the theorizing of rationalization strategies
 - and the governance concept

Source: Martin, R., Sunley, P., (2003); Coyle, D., (2001). Krugman, P., (1997). Scott, A.J. (1998), (Grobelaar, 2012)

Principles for designing frameworks for green economic development



Source: Grobbelaar, S., (2012).

In strategy development, the systems of innovation framework is powerful in directing the analysis



Clusters provide a framework for focussed support

Through the systems view clusters of innovative activity that may have competitive potential could be distinguished. If potential strong inter-firm clusters could be identified public authorities are presented with a framework for focussed support efforts, alongside generic support actions.



Demand side and supply side considerations are important

It is important to have a systematic analysis of demand side (e.g. firms and their global competition challenges and innovation needs) and the supply side (i.e. innovation support in its widest sense) to develop a robust and balanced regional innovation strategy.



The systems view provides a guide to design support structures

The systems of innovation concept also is useful in assisting in the analysis of determining what type of support needs to be set up at which level (local/regional/national/transnational) and what the possibilities for inter-regional cooperation are.

Grobbelaar, S., (2012). Clustering for Competitiveness: Urban Patterns for a Green Economy, UN-Habitat available at <http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=3340>

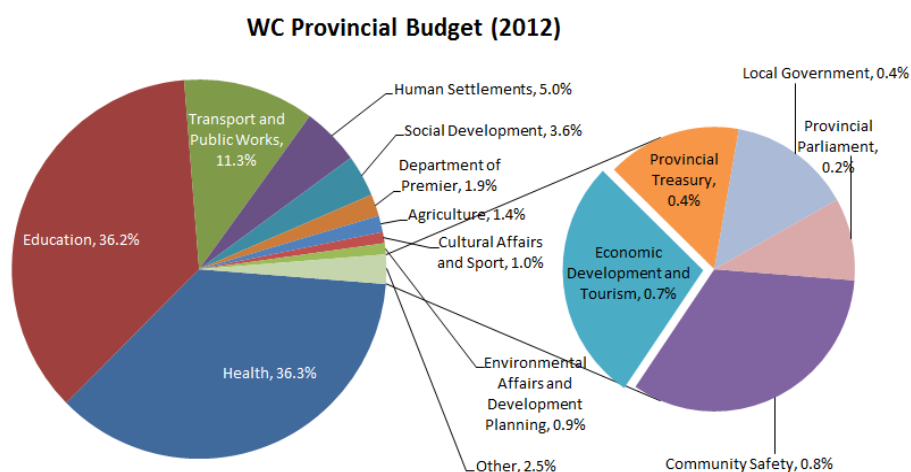
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Four phases of development

- Phase 1: 1994 – 1998: Establishment and the Reconstruction and Development Plan (RDP)
- Phase 2: 1999 – 2003 - Towards the knowledge economy of the 21st Century - Steady growth.
- Phase 3: 2004 – 2009 - The Micro-Economic Development Strategy – the big drive
- Phase 4: 2010 – 2014 - Consolidation, the Green Economy and the big push around Catalytic projects

WCDED&T small budget – but plays an important role



Source: (WCDEDAT, 2012)

Propositions – the economic development support capacity in the Western Cape has developed to a sufficient level

- We argue that the capacity built-up by the province's sectoral teams provide a strong platform to extend services and support for the regional system of innovation, both at a sectoral, but also at a broader economic level.
- As far as understanding the supply-side and demand-side, the institutions and networks that exist around each sector, allow a deep understanding of the demand conditions that are exerted on each sector, as well as the supply-side opportunities or constraints.
- The factors determining the competitiveness of the enabling environment relative to other competitors have been developed, with a clear position on most of the constraints. We propose that these can now be extended and further deepened to be oriented to the innovation space.
- Principle amongst these would be the deepening of relationships between the more dynamic and innovative firms and the research and higher education institutions.
 - This could be extended to other actors in clusters such as the venture capitalists, designers, scientists, continuous improvement consultants and other key players who have an impact on the innovation capacity of each sector.
- Basis of competitiveness: knowledge economy and continuous improvement, need now to ensure that the production system effectively incorporates knowledge based production with innovation integrated in production patterns

Various areas for integrating innovation support on the regional level

Business regulation and governance

- Regional organising capacity and creative governance
- Economic strategy and planning

Integrated economic services

- Business – level focused innovation support activities
- Inclusive / social innovation support

Trade and sector development

- Investment attraction and trade promotion
- Strategic initiatives
- Sector-level support – clustering and agglomeration effect enhancements

Business regulation and governance: Current capacity

- Currently capacity exists for strategy development, economic synthesis reporting, understanding of policy environment, review national strategies, performance assessment and to develop draft legislation, coordination of transversal management systems
- WC government established a co-ordination and boundry-spanning body (Economic Development Partnership - the EDP).
 - Transversal: Between departments and interdisciplinary;
 - Inter-governmental: Between spheres of government;
 - Cross-sector: Between the four sectors of the quadruple helix namely government, business, community and business as well as between value chains;
 - Cross-boundary: Across spatial and administrative boundaries where budgetary authority ends.
- Improved M&E systems have been put in place on a project by project level:
 - Major challenge still overall impact of the sector programmes on job creation and growth over time, and
 - Determining the causality between the sectoral interventions growth
- Baseline studies are being carried out to determine the size of each sector, anticipated will be done every 3 years to determine growth, and attribute growth to interventions.

Business regulation and governance: A framework for developing a regional organising capacity and creative governance

Proposition: Key to development success is the ability of a region to engage in self-exploration activities and to be innovative. The principles of creative governance may enhance the capacity of the region to stimulate such activities

Proposition: The involvement of communities in solving their own problems is important to ensure that contextual issues are adequately taken into consideration. This may have creative governance applications...

- Mechanisms for ensuring that governance in the province be focused on further developing a regional organising capacity - capacity to organise actors on all levels and between various spheres to foster ability to drive regional development agendas – across various boundaries.
- M&E capacity development and improvement to consider systems change and causal relationships instead of factors thinking in terms of judging success of innovation system interventions.

Supply	Exchange	Demand
<ul style="list-style-type: none"> • Studying and developing sustainable business models for development and finding local problems an solving them • Sector-level and value chain analysis and understanding of upgrading opportunities • Research networks for supporting understanding of options and needs for coordination 	<ul style="list-style-type: none"> • Development of sector-specific core innovation advisory base • Reviews and technology forecasting linked up with analysis and mapping of systemic weaknesses and strengths • Creative governance – diversity in planning and forums • Self organising capacity / regional organising capacity 	<ul style="list-style-type: none"> • Capacity development in for knowledge uptake and advisory – development of innovation advisory absorptive capacities. • Procurement policies

Integrated economic services – current activities

Integrated Economic Development Services	
Enterprise Development	<ul style="list-style-type: none"> Improved co-ordination of and access to enterprise development initiatives and interventions (Access and coordination of business initiatives (Increase in access points to professional business development services) Cooperatives to draw on collective energies of community Business competitiveness and growth (Upgrading of technology for manufacturing businesses, Mentorship programme) Promoting entrepreneurship (awareness creation – entrepreneurship week)
Regional and Local Economic Development	<p>Supporting strategic LED interventions: Regional Programme of Excellence (Capacity development in LED)</p> <ul style="list-style-type: none"> LED advisory and support: LED Maturity Assessments and improvements and tailored capacity building projects) Capacity building: awareness, sound LED plans, strategies and actions (Investment promotion training, LED management training, Business climate surveys) Provincial and district-level LED forum, newsletters Funding support: LED growth fund for businesses for demand-led business proposals <p>Improved regional and local coordination (defining roles of LED, approach to LED)</p>
Economic Empowerment	<ul style="list-style-type: none"> Supplier development (Access to private and public sector opportunities, corporates to open to emerging suppliers)(Workshops and capacity development) Public sector procurement incentive schemes (advocacy and increased awareness - compliance)
Red Tape Reduction	<ul style="list-style-type: none"> Awareness and advocacy: (Municipal Red Tape Reduction Project, Engagements with business associations, chambers of commerce, sector associations and government departments, radio campaign, anchor campaign research- economic performance index, business helpline service)

Source: (WCDEDAT, 2012)

Integrated economic services: Enterprise development and inclusive growth propositions

Proposition: Appropriate value chain upgrading and competitiveness improvements in businesses can be achieved by supporting self-exploration activities in businesses.

- Although innovation may be involved in the process of remaining cost competitive, a question may be posed regarding how to achieve appropriate value chain upgrading through enterprise-level focused innovation support activities.
- We therefore propose mechanisms through which WCDEDAT can support self-exploration activities in enterprises for finding new areas of competitive advantage. In our framework, we propose consideration of the following mechanisms

Proposition: Inclusive growth can be stimulated through leveraging capacity in problem solvers and the development of links and networks between problem solvers in universities and the private sector and communities

- Involvement of communities in solving own problems important to ensure contextual issues are adequately taken into consideration.
- Leverage existing spaces or mechanisms through which industry, universities, communities and government can engage in debate in solving local problems.
- Could be supported by linking problems to problem solvers in universities and the private sector.
- Propose that issues such as procurement and sustainability play an important role. For instance the development of appropriate business models

Integrated economic services: A framework for potential mechanisms to embed innovation

	Supply	Exchange	Demand
Business support	<ul style="list-style-type: none"> • Incentives for innovation (i.e. prizes and competitions, recognition, • Support to access fiscal incentives for innovation support such as R&D • Supplier development and incubation • Mentorship of CEOs for innovation focus • Funding facilitation for innovation investments (business level) • IP protection facilitation • Funding facilitation for innovation investments (business level) • Business development and incubation • Competitiveness improvements – innovation for industrial upgrading 	<ul style="list-style-type: none"> • Facilitation of partnerships with innovation partners (industry as well as universities) • Support to access advisory and technical support for innovation product development • Improving business support functions • Strengthening industry associations / special purpose vehicles for strengthening innovation system linkages 	<ul style="list-style-type: none"> • Procurement support for innovative products and services (Enterprise development fund) • Export facilitation to create markets for innovative products and services
Inclusive innovation	<ul style="list-style-type: none"> • Business models and funding models to link business with communities and projects • Mechanisms to sink CSR costs • Shared services • Training of problem solvers in multi-and trans-disciplinary research • Engaged scholarship in knowledge producers 	<ul style="list-style-type: none"> • Understanding problems better: Support and coordination of community engagement platforms and mechanisms • Developing trust and relationships between problem solvers and communities – MDTD research • A new breed of extension workers 	<ul style="list-style-type: none"> • Procurement policies and projects for innovation in development

Trade and sector development: Current capacity

Trade and Investment Promotion

- Market access and market development developed to an advanced level with mechanisms for marketing, export promotion and facilitation and branding and advertising well established.
- Existing capacity exists in the improvement of consumer knowledge, the hosting of consumer events and order facilitation.
- Furthermore, in-depth knowledge exists on trade development, investment promotion, developing relationships with exporters, industry events, and international trade-fairs.

Sector development

- Well established capacity to understand industry. Understanding industry unit in department responsible for planning and policy and through industry interactions with SPV model
- Established projects for development of supporting institutions
- Established capacity for supporting development of special infrastructure
- Debottle necking problems confronting industry
- Innovation support established– to be developed and strengthened:
- Facilitation of networking
- Business development function well established
- Productivity programmes in place
- Marketing and promotion
- Skills and training

Source: (WCDEDAT, 2012), (WCDEDAT, 2010), (SPV annual report, 2012)

Trade and sector development: Propositions to embed innovation

Proposition: Trade and investment promotion should aligned with a focus to attract and set-up businesses that can contribute to strengthening the innovation system

- This may include focussing activities around facilitation support (Red tape reduction) and Match-making local & international businesses to also support businesses in understanding and making it easy to move in and set up shop in innovation and knowledge intensive environments. This may have implications for the way marketing the provincial value proposition will take place

Proposition: Appropriate industrial upgrading can be achieved by support for innovation on the sectoral level

- This may include cooperation development which may include technical collaboration in design of products, systems or production methods / layouts, R&D collaborations, Joint production, technology transfer, marketing and co-operative promotion of projects and market sharing, Commercial representation, strategic alliances (specifically considered by automotive industry en the facilitation of regional integration and integration in value chains), Open innovation alliances
- Grow local market for products: Demand-side measures to stimulate change in purchasing behaviour in customers through marketing and promotions – e.g. selling “life style” of owning a yacht by the boat building cluster, or possibly links to social innovation activities.

Trade and sector development: A framework for potential mechanisms to embed innovation

	Supply	Exchange	Demand
Trade and Investment Promotion	<ul style="list-style-type: none"> • Cooperation development 	<ul style="list-style-type: none"> • Facilitation support (Red tape reduction) • Match-making local & international businesses 	<ul style="list-style-type: none"> • Trade missions – engagement (focus on sector and geography) • Marketing and Branding: Package Provincial Specific Value Proposition
Sector Development	<ul style="list-style-type: none"> • Funding facilitation for innovation investments (cluster) • Productivity improvements through innovation (value chain interventions, benchmarking clubs, inter-intra firm upgrading, quality and productivity systems, site visits and demonstration, technology transfer) • Skills and training to support innovation (aligning university curricula with regional innovation needs, retaining and attracting highly skilled individuals to the region) 	<ul style="list-style-type: none"> • Capacity building and skills development to improve knowledge of actors and widening horizons for innovation opportunities • Facilitate inter-linkages between businesses: Networking and hosting events and conferences for linking ideas / sources of innovation, partnership development • De-bottle necking (improving business environment, transport, logistics, bandwidth, access to finance, skills and markets, unblocking trade barriers to export markets) • Develop support institutions for innovation (e.g. shared services support, knowledge production, open innovation platforms) 	<ul style="list-style-type: none"> • Marketing and promotion (profiling success stories, trade and investment missions, exhibitions and conferences)

Agenda

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Conclusion

- The key governmental support mechanisms in South Africa are all centred within national government which limits support at a provincial level
- The innovation support function is cross-cutting and not a separate function.
- The application of economic tools such as entrepreneurship, trade and investment support, competitiveness upgrading and general business support - is more mainstreamed than innovation in South Africa.
- The economic development tools, institutional capacity and networks need to evolve over time.
- Once an economic development support function has been developed up to a sufficient level, embedding innovation as a focus is merely a shift in accent and emphasis that is required – not a complete overhaul of the system – and there is already aspects of innovation support that is taking place.
- Inclusive development is required to ensure sustainable growth – having a vibrant innovative industry in the province may assist on finding solutions to local problems and providing job creation opportunities

Suggestions

- Build on existing support to SMME and business for innovation activities – procurement, social problems;
- Developing and implementing sustainable business models for development and finding local problems and solving them;
- Sector-level support: Clustering and strengthening of agglomeration effects within to stimulate innovation;
- Investment attraction and trade promotion to stimulate investment in innovation in industry;
- Special projects and infrastructure development to support innovation;
- Support to municipalities – improving the business environment for innovation activities – social and community innovation – especially of interest to some universities as well as DST;
- Intermediary role players to link issues with problems;
- New areas for focus for the department – the time is right – universities and industry has focus on innovation;
- Social innovation / inclusive innovation on the agenda – new area for focus for the department / province;

Generalizability of findings and future work

Generalizability and usefulness of results

- The framework developed may be useful to other regions to consider areas for innovation support
- The propositions may be useful for other regions in South Africa

Future work

- Future work may be focused on unpacking each category of support in detail – expanding the analysis for innovation mechanisms
- SMME support mechanisms and LED support mechanisms may be integrated in future in the framework

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