

CONNECTING ECONOMIC GROWTH WITH POVERTY ALLEVIATION: SOUTH AFRICA'S LED CHALLENGE

1. INTRODUCTION

As a development approach, LED is based on the central idea that local mobilisation of actors and resources, building a convergence of interest around the competitive advantages of localities and building the capacity for economic actors to take up economic opportunities may arrest the damaging effects, and enable exploitation of the opportunities, created by new market conditions. The idea coincides with a global trend towards decentralization of powers from national to local government. It is also associated with the shift from interventionist to enabling forms of governance to promote development partnerships between local economic actors.

The rise to prominence of local economic development (LED) in South Africa and internationally is a response to heightened pressure on local economies from global market forces. Although it has a long history, its more recent forms emerged within developed societies in the 1970s. It came to underdeveloped societies somewhat later, where the negative impacts of globalization were deeper, more widespread and difficult to counter.

LED strategies were mounted in South Africa from the late 1980s by local business and civil society actors in the context of economic decline and the legitimacy crisis of the apartheid state. From the mid 1990s, the government of national unity took over LED as part of its *developmental* approach to local government. It linked LED to the Reconstruction and Development Programme (RDP), emphasizing a community economic development orientation. Somewhat later, under the Growth, Employment and Redistribution Strategy (GEAR), economic development was also pursued through market-oriented strategies that emphasized enterprise development, investment promotion and small business development.

Currently, government is in search of a more coherent approach that connects the divergent LED initiatives of different departments and levels of government. An unpublished policy document of the Department of Provincial and Local Government (DPLG) takes a step in this direction by laying out a framework for a holistic approach by local government to LED, with a strong community economic development focus. Within the Department of Trade and Industry, there is also a shift towards a more integrated approach to industrial development and a focus on economic nodes at the local level.

This newsletter provides an overview of the existing policy frameworks for LED and a brief evaluation of LED experiences since 1994. It offers an introduction to the main issues in debate over LED in South Africa and describes new directions for LED. Intended as a brief introduction for practitioners in the LED field, the newsletter provides a list of useful recent sources on LED, including the most important legislation, policy documents, case studies and academic publications.

2. THE CURRENT POLICY FRAMEWORK

The Constitution and developmental local government

The basis for the current LED policy framework was set down in the Constitution and elaborated in the Reconstruction and Development Programme (RDP) and subsequent policy documents and legislation dealing with local government since 1994.

The Transitional Local Government Act and the White Paper on Local Government of 1998 redefined the objectives of local government to focus on development, including its social and economic dimensions. This policy framework was consolidated and systematized within the Municipal Structures and Municipal Systems Acts that laid the foundation for the local government system implemented in 2000.

The policy framework for LED

National policy, as set out in the White Paper on Local Government, requires local government to pursue economic development mainly through the re-alignment of its core functions, namely land use planning, service delivery, development and regulation. Its main economic role is to provide an enabling environment, rather than to take direct responsibility for economic growth and job creation. Local authorities were to pursue LED within the framework of integrated development plans (IDPs) formed through participatory processes that would determine municipal budgets.

In addition, national policy gives local government some specific areas of LED competence. These are marketing for investment promotion, support services for small business, assistance to targeted growth sectors and the tailoring of training and labour placement activities to local labour market conditions. A wide range of more detailed functions have been elaborated in a number of policy documents put out by the Department of Provincial and Constitutional Development (later Provincial and Local Government - DPLG) and in documents produced by local authorities, particularly in the metropolitan areas.

National policy has been less prescriptive on the question of the institutions needed to pursue LED. The White Paper on Local Government set out a range of partnership forms for local government service provision, but the DPLG shied away - at first - from the idea that municipalities should set up LED vehicles, arguing that LED should permeate the whole of their activities, rather than be confined to the operations of a single structure. More recently the DPLG has supported the idea of setting up economic units, and many district councils have made provision for them in their latest IDPs.

The DTI's Spatial Initiatives

National policy seeks to promote economic growth and employment creation through a number of other strategies that have impacts at the local level. In contrast to the LED initiatives of the DPLG, the Department of Trade and Industry (DTI) has pursued market-oriented programmes that take as their point of departure the need to engage with global market forces through the creation of national and local competitive advantage. While in theory they are intended to connect with the LED initiatives of municipalities, in practice they follow a different logic and are pursued by agencies and actors that do not always co-ordinate their efforts with those of local actors.

In particular, the DTI sought to promote economic development through spatial development initiatives (SDIs) and industrial development zones (IDZs) of high potential. The SDI's and IDZ's focus was on new wealth creation rather than socio-economic upliftment. The approach also stressed public-private investment partnerships, rather than public-community arrangements. The essence of the DTI's approach was to identify

areas with already established economic competitive advantages and to try to build on these. The rationale was that public investment in infrastructure in well located corridors would lead to the crowding in of private sector investment with consequent agglomeration economies. The SDIs were also intended to have a strong black empowerment dimension, mainly through support for the development of small and medium enterprises (SMEs) within and alongside the corridors. More recently there has been a down-grading of the SDIs, and a greater focus on IDZs.

The DTI's Integrated Manufacturing Strategy

Concern that the SDI's have not had the anticipated impact has led the DTI to shift away from a spatial to a "Micro-Economic Reform Strategy". This thinking is set out in a policy document entitled "Accelerating Growth and Development: the Contribution of an Integrated Manufacturing Strategy". The new approach identifies six key performance areas: growth, competitiveness, employment, small business development, black economic empowerment, and the geographic spread of economic activity. It stresses the importance of integrated interventions by different government and private sector actors across economic sectors and within economic clusters. It sees Municipal IDPs as an opportunity to link local economic development with sectoral and national economic strategies, thus, potentially giving LED an enhanced role at the area level.

While focussing strongly on black economic empowerment and the promotion of small, medium and micro enterprise support, the DTI's new policy approach does not take up directly the issue of the connection between economic growth and poverty alleviation. Thus despite the emphasis placed on integration and the role of LED, the document does not close the existing gap between the DTI's approach and that of the DPLG noted above.

Integrated sustainable rural development and urban renewal programmes

In his February 2001 State of the Nation address, President Mbeki underscored the Government's commitment to addressing rural and urban poverty. Twenty one rural and urban nodes were identified for focused government effort on integrated delivery, human capacity building, community economic development and economic linkage strategies. (See the newsletter on the Urban Renewal and Integrated Sustainable Rural Development programmes in this series).

The adoption of a nodal approach to urban and rural renewal is based on recognition of the fragmented, unsustainable character of much development intervention since 1994. It coincides with growing concern about the failure of policy to stimulate economic growth or reverse trends producing increasing unemployment and deepening poverty. The chosen nodes, however, have little in the way of endogenous economic activity and a major challenge will be to link them to sustainable economic opportunities, most of which lie outside their perimeters.

3. ACHIEVEMENTS AND GAPS IN RESPECT OF POLICY AND PRACTICE

LED linked to housing and infrastructure programmes

Since the mid 1990s, the primary input of public sector investment in poor areas has been in the form of housing and municipal infrastructure and it was here that LED initiatives were first intended to focus. The RDP programmes undertaken in the 1990s substantially built up the asset base of poor communities and households. Residential

development programmes were also the impetus for considerable small business development and job creation within townships and informal settlements.

However, a difficulty encountered in slip streaming LED behind housing and municipal development programmes was the short lived and highly localized nature of such interventions. Following a burst during the construction phase, economic activity would rapidly decline to relatively low levels within residential areas. Small business operators and workers alike would find it difficult to transfer their operations to other areas due to the policy of prioritizing people from beneficiary communities in such programmes. Thus the skills built up in one area could not easily be transferred to others. For poor communities these problems were compounded by the tendency of the more successful business to move out to more affluent areas where markets could sustain them.

The broader dilemma facing government was that public sector investment, while providing growing numbers of poor people with an improved asset base, was not itself sufficient to ensure sustained economic development. Indeed the sustainability of the asset base built up as a result of RDP programmes was itself placed in jeopardy by declining participation of residents of poor communities within the formal economy over the period. What was needed - in addition to residential development - was jobs and enterprise growth to generate sustainable incomes for residents of these areas. It was this realization that led to the adoption of GEAR in 1996, increased priority in national policy to economic growth and job creation and the rise of LED as a local government function – in policy, if not always in practice.

Assessing the impact of LED on poverty

Where LED has been pursued by local government in South Africa since the mid 1990s, it appears that the results have generally been disappointing. A study of nine cases, including big and small cities and a rural area, was undertaken by the Isandla Institute for the DPLG in 1998. It concluded that while LED was well understood and vigorously applied by the authorities concerned, there were few signs that it had significantly improved the lives of the poor. More recent overviews by Nel and Rogerson, two leading LED analysts in South Africa, arrived at a similar view. (See the list of academic references)

It should, however, be noted that these studies were concerned with direct impacts on poverty alleviation. They do not take up the more complex task of evaluating LED in terms of its impacts on economic growth and how this works back into poverty alleviation through the generation of local government and national revenues, which, in turn, may provide the financial resource base for poverty alleviation measures.

LED implementation in smaller towns and rural areas

The abovementioned studies found that relatively few smaller local authorities were able to mount LED programmes at all, notwithstanding the pioneering work undertaken in some well know cases, such as Stutterheim and, more recently, Ladysmith, Harrismith, Nelspruit and Midrand.

Nel, in a study of a large number of smaller local authorities, found widespread, and even enthusiastic, acceptance of the idea of LED by smaller local authorities. However, few had the capacity in terms of finances and skills to mount serious programmes. He found that in rural districts most LED projects - where they exist at all - are operated by community based or non-governmental organizations, rather than local government

itself. He concluded from these findings that there is an urgent need for support to build the capacity of local government to undertake LED.

LED implementation in the metropolitan context

In contrast, the metropolitan areas, which have far greater capacity, have all set up structures to pursue LED, in the form of LED (or social and economic development) departments or units, generally with access to high level decision making structures within the municipalities.

Here, however, there has been a tendency for LED to move in different directions, the one towards large scale enterprise development in the form of business attraction, retention and expansion strategies and the other towards community economic and small business development, thereby perpetuating fragmentation within overall metropolitan development interventions.

This is also true at provincial level, where growth and development strategies of the mid 1990s tended to treat LED as essentially concerned with poverty alleviation, oriented community economic development, while their spatial and sectoral strategies were more strongly focused on the formal, medium and large enterprise sectors and sought to enhance competitiveness.

The split in LED

More broadly, the take-over of the LED mandate by local government, has coincided with something of a retreat of other actors from the centre stage of LED, particularly outside the metropolitan areas, and a shift of focus within LED (as pursued by local government) away from growth promotion towards community and SMME development. In the metropolitan areas LED is still actively pursued in parallel with poverty alleviation, but these objectives are often not systematically linked in practice.

At the same time, the Department of Trade and Industry (DTI) and its provincial agents have pursued market-oriented investment promotion and enterprise development, and here the principal partners outside government have been the large and medium private enterprise sectors.

The outcome has been that growth and poverty alleviation initiatives are being undertaken by different actors often working apart from each other with different aims and sets of resources, and this has led to policy and action pulling in different directions at the local level, leading to wastage of resources and loss of opportunities for synergistic actions.

LED and IDPs

These problems were intended to be overcome within the framework of integrated development planning (IDP). Vigorous efforts were made by national and provincial government to ensure the success of the IDPs in the late 1980s, and a renewed effort has been made by the DPLG to ensure the success of the current round of IDPs. However, capacity constraints in local government have forced most to turn to consultants to perform this work and this has led to production of abstract documents not conducive to viable project formulation and implementation and weak in terms of democratic participation.

LED and Urban Renewal Strategies

Recognition of these problems has led to a search for more complementary approaches and a focus on nodal rather than corridor development that seeks to bring together growth and poverty alleviation objectives. This is evident both in conception of the Urban Renewal and Integrated Sustainable Rural Development programmes inaugurated in 2001 and in the shift within the DTI from corridor development in the form of the SDIs, to a greater emphasis on nodal development in the form of the IDZs and micro-economic strategies to enhance competitiveness.

An examination of early examples of the Urban Renewal Programmes (URPs), such as Alexandra and the Inanda, Ntuzuma and KwaMashu (INK) area, show that LED is being given a higher priority, at least in principle, than was the case in the first generation Presidential Projects, under President Mandela. (For an account of the URP see the companion newsletter in this series) The LED support within these projects includes a range of measures that are strongly community focussed, including small business and human resource development. They also stress linkage strategies to the wider surrounding economy.

4. CURRENT CHALLENGES

The broad development challenges

In general terms, the slow rate of growth of the South African economy coupled with steeply rising unemployment, growing income poverty and increased social exclusion are the basic economic challenges for those concerned to promote LED. More specifically, the tendency for poverty and unemployment to be concentrated mainly within the black population and within the urban peripheries and rural areas, present major challenges.

To this overall picture should be added the background problems of continuing low levels of education and training which effectively prevent the poor from accessing those economic opportunities that do arise. The spreading impact of HIV/AIDS is set to reduce population growth, cut deeply into the economically active workforce, and dramatically increase the vulnerability of the poor to poverty. Both these threats to the capacity of the poor to create or take up economic opportunities need to be internalized within LED approaches.

The role of government and other actors

While national policy and legislation makes local government a central actor in LED at the local level, the reality is that local government lacks the capacity to undertake this role on its own, and is inherently not well suited to a lead role within certain domains of LED given its organizational structure and operating ethos.

Furthermore, LED initiatives are, in practice, being undertaken by a range of different actors with different interests, sets of resources and objectives. This is resulting in a lack of co-ordination and missed opportunities for synergies between initiatives and the challenge is to bring these together within convergent locality strategies.

Community economic development

Given its focus on active mobilization of economic actors, and their engagement in sustainable production and exchange, LED is not well suited to play a passive welfare role, though it may effectively complement welfare interventions. Its contribution to

poverty alleviation is best performed through nurturing existing economic networks and activities within poor communities, building the capacity of the poor to undertake economic activity and connecting them with economic opportunities outside. This means going beyond the slip streaming of LED behind public sector housing, infrastructural and service expenditure, which often provides short-lived opportunities. It means connecting economic operators and work seekers in poor communities with the wider economy through a range of linkages – markets, sub-contracting, financial and employment exchange.

Market-oriented approaches

The main difficulty with marketing and investment promotion initiatives to date is that their focus on large investor interests has been associated with forms of economic growth that are not creating a great deal of employment. The jobs that are created tend to be small in number and highly skilled, which favors whites, Indians and coloureds, but tends to exclude the majority poor black population. Small black business has gained from this through preferential tendering and associated support services, but the impact back into poor black communities has been relatively slight.

The growth/poverty alleviation challenge

With respect to policy objectives, the principal challenge for LED, therefore, is overcome the existing split in policy and practice that has been leading to divergent national, provincial and local economic growth and poverty alleviation initiatives.

Structural and institutional challenges

Institutional integration at the level of government has progressed rapidly since 1994, but challenges remain, especially within local government in the mainly rural districts. Within poor communities, organizational depth declined during most of the late 1990s and community based organizations need both the political space and support from local government to enable their renewal and growth.

The institutional challenge for LED is to bring together national, provincial and local government, private sector business organisations, NGO's and CBO's pursuing LED within policy and institutional frameworks that enable convergence of interests and initiatives around shared goals.

One aspect of this challenge is to establish the right mix of accountability and operational autonomy for LED institutions, so as to enable both co-ordination between LED actors and to promote the innovation needed to secure both poverty alleviation and growth objectives.

4. NEW DIRECTIONS

Refocusing on the poor

In a paper entitled "Refocusing Development on the Poor", and in a companion manual for municipalities, it is proposed that LED be turned into the lead sector in urban and rural regeneration. This policy initiative has created an expectation that a post-GEAR policy shift may have been in the offing, at least in the sphere of LED.

The approach advocated in the two DPLG documents is that LED should be increasingly programmatic (i.e. internally integrated and multi-faceted LED programmes). It should also be implemented within IDP processes that are holistic, people-centred,

environmentally sustainable and focused on job creation and urban and rural development in poor areas.

The report provides a valuable overview of the existing range of national LED and LED-related policy initiatives. It seeks to promote coherence within this framework, including more effective pooling of funding sources available for LED from different government departments.

The return to a more holistic, people centred approach to LED within the pro-poor paper represents a major achievement in conceptual policy integration, and will greatly assist local authorities in their present determination to take up LED as a central development challenge. However, it is important to place this document within a wider LED perspective, in which other policy objectives, institutions and actors are drawn together.

The missing linkages

The pro-poor policy document focusses attention on poverty alleviation in a way that leaves unexplored the question of economic growth and its role, especially over time, in employment growth and income generation – the prerequisites for sustained improvement in the lives of the poor. It also leaves largely unanswered the question of how to foster economic connections between poverty stricken areas and their people and economic opportunities, the bulk of which lie outside.

Any approach within urban areas that fails to put this dimension at the centre of economic development policy – while at the same time addressing the important, but lower order, issue of economic opportunities inside and near townships and informal settlements – may skew local government efforts away from the main potential source of economic opportunity for the poor.

In predominantly rural areas, greater opportunities lie in economic development centred on the household and community, than is the case in urban areas. This is due to the continued existence of a natural resource base in many such areas. Here too, however, the greatest prospects for economic growth and sustainable employment will ultimately be found in linking local activity to wider markets, and this means investment promotion, enterprise development and the enhancement of the competitiveness of the areas.

The missing actors

A further weakness with the pro-poor approach, as formulated in the draft policy papers, is that it defines local government as the main driver of LED, when international experience suggests that local government is more effective as a facilitator or enabler than as a driver of LED.

The tendency for local government to displace other LED actors while lacking the capacity to undertake programmes is a serious weakness in current LED approaches. An important complement to current national policy thinking will be to bring back in actors sidelined by policy over the last few years. In particular, business and civil society organisations, which pioneered LED in the 1980s and 1990s, need to be drawn back into the LED sphere, as major actors, in partnership with local government.

Linking LED to IDPs

The renewed emphasis on LED within IDP processes may place too great a burden on local government, given its capacity constraints, if seen exclusively as its prerogative. What is needed is to widen this mandate to include a range of other actors, which may mean that the IDPs need to be treated as a broad framework to encourage a range of initiatives, some within and some outside the operational sphere of local government.

Mobilisation across actors and levels

The multi-level, multi-actor approaches emerging from international experience in low and middle income countries, as described by Helmsing, do not sit easily with the approach to integrated development planning as conceived in South Africa. They suggest co-ordination, rather than tight integration, of a range of LED initiatives and actors, with local government playing an enabling, rather than an exclusive, interventionist role.

5. CONCLUSION

Since the mid 1990s, LED has been taken over as part of the mandate of local government, with some sidelining of other actors. It has tended to be pursued by different government departments and other actors in divergent ways that have fed into the fragmented and unsustainable development characteristic of the past period.

There is a search on for a more coherent approach to LED. This has been prompted by slowing economic growth, rising unemployment and poverty. National policy thinking in the form of the DPLG's pro-poor policy represents a creative, conceptual advance towards a more coherent approach for local government. It needs to be complemented by a wider conception of LED that would seek to promote a multi-layered, multi-actor approach, draw civil society and business actors back into the centre of play and strive to connect poverty alleviation with economic growth.

ACKNOWLEDGEMENTS

My thanks to Etienne Nel for useful comments on this newsletter. Work on a European Union funded Feasibility Study on Local Economic Development in KwaZulu-Natal helped me refine an earlier draft of this newsletter. I am, however, exclusively responsible for any errors or omissions.

USEFUL SOURCES

POLICY DOCUMENTS AND LEGISLATION

African National Congress (1994) Reconstruction and Development Programme: A Policy Framework

Province of Kwazulu-Natal, Department of Economic Affairs and Tourism (1996) Provincial growth and development strategy.

Province of KwaZulu-Natal, Department of Economic Affairs and Tourism (1998) Local economic development programme.

Republic of South Africa, Department of Finance, (1996) Growth, Employment and Redistribution- A Macro-Economic Strategy, Republic of South Africa.

Republic of South Africa, Department of Provincial and Local Government (2001) 'Refocusing Development On The Poor', Draft Local Economic Development Policy Paper. (confidential)

Republic of South Africa, Department of Provincial and Local Government (2001) Draft Local Economic Development Training Manual, A Resource Book for Councillors and Officials. (confidential)

Republic of South Africa, Department of Trade and Industry (2000) Accelerating Growth and Development : The Contribution of an Integrated Manufacturing Strategy.

Republic of South Africa, Ministry of Local Government and Constitutional Affairs (1998) Local Government and Economic Development: A Guide for Municipalities in South Africa.

Republic of South Africa, Ministry of Provincial Affairs and Constitutional Development (1998) White Paper on Local Government.

Republic of South Africa (1996) The Constitution of the Republic of South Africa, Act, No 108.

Republic of South Africa (1998) White Paper on Local Government. Pretoria: Ministry for Provincial Affairs and Constitutional Development.

Republic of South Africa, (2000) Integrated Sustainable Rural Development Strategy
Republic of South Africa, Local Government Transition Act, No 97 (1996).

Republic of South Africa, (2000) Municipal Systems Act, No. 32.

Republic of South Africa, (2000) Municipal Structures Act, No 117.

ACADEMIC PUBLICATIONS

Bond P (2002) "Local Economic Development Debates in South Africa", Occasional Papers Series No, 6, Municipal Services Project, University of the Witwatersrand.

Bond P (1998), "Local Economic Development and the Municipal Services Crisis in Post-Apartheid South Africa". *Urban Forum*, 9.

Crush J and Rogerson, C (2001) "New Industrial Spaces: Evaluating South Africa's Spatial Development Initiatives (SDI) Programme", No. 83 (2).

Harrison P, Todes A and Watson V (1997) Transforming South Africa's Cities: Prospects for the Economic Development of Urban Townships. *Development Southern Africa*, 14.

Helmsing B (2001) "Local Economic Development in Low and Middle-Income Countries: New Generations of Actors, Policies and Instruments", Institute of Social Studies, the Hague.

May, J (ed) (2000) Poverty and Inequality in South Africa: Meeting the Challenge, David Philips, Cape Town.

Meyer Stamer J (2002) Participatory Appraisal of Competitive Advantage: a Methodology to Support Local and Regional Development Strategy Initiatives Based on the Systematic Competitiveness Concept” Institute for Development and Peace, University of Duisburg.

Nel E (1994), “Local Development Initiatives in Stutterheim”, *Development Southern Africa*, 11.

Nel, E (2001) “Local Economic Development: A Review Assessment of its Current Status in South Africa”, *Urban Studies*, 38.

Nel E and Humphrys G (1999) “Local Economic Development: Policy and Practice in South Africa”, *Development Southern Africa*, 16.

Parnell S and Pieterse E (1999) “Developmental Local Government: The Second Wave of Post-apartheid Transformation”, *Africanus*, 29, pp. 61-86.

Pieterse F (1998), “Introduction” in Linking Local Economic Development to Poverty Alleviation, Isandla Institute and Department of Constitutional Development, Pretoria.

Pieterse F (1998), “A Framework to Link LED to Anti-poverty Strategies”, in Linking Local Economic Development to Poverty Alleviation, Isandla Institute and Department of Constitutional Development, Pretoria.

Rogerson C M (1997), “Local Economic Development and Post-apartheid Reconstruction in South Africa”. *Singapore Journal of Tropical Geography*, 18.

Rogerson, C (2000) “Globalisation and Local Economic Development: The Case of South African Cities”, Department of Geography & Environmental Studies, University of the Witwatersrand, Johannesburg.

Rogerson, C (2000) “Local Economic Development and Urban Poverty Alleviation: The Experience of Post-Apartheid South Africa”, Department of Geography & Environmental Studies, University of the Witwatersrand, Johannesburg.

WEBSITES

www.isandla.org.za Isandla Institute

www.qsilver.queensu.ca Municipal Services Project

www.alexandra.co.za Alexandra Renewal Project

www.gov.za SA government on line

www.local.gov.za Department of Provincial and Local Government

www.anc.org.za African National Congress- Official site

www.wits.ac.za University of Witwatersrand

www.dbsa.org Development Bank of Southern Africa