

# Assessing local economic development and social welfare benefits in a global context

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## Introduction

This paper explores local economic development (LED) within a globalised context, the policy context of LED, and the contribution and challenges for local economic development in relation to social welfare benefits. This has important implications for social welfare policy and implementation, especially in relation to pursuing the 2014 agenda.

Local economic development is concerned with the creation of an environment which will engage stakeholders in implementing strategies and programmes. This perspective had to be aligned with the country's macro-economic strategy which focused on re-entering the global market, providing a climate which is amenable to international investments, enhancing the role of the private sector, and reducing the role of the state (DBSA, 2000). The increasing status of locality in the global economy and the rising emphasis of local and community decision-making in democratic states have paved the way for the development of local economic development (LED).

The debates on globalisation engender controversy. They are shaped and influenced by ideological persuasion. There are writers who subscribe to the notion that globalisation is concerned with the flow of capital (Mishra, 1999). In contrast, other writers suggest that it is a multi-dimensional process (Midgley, 1997). Midgley defines globalisation as: *A process of global integration in which diverse peoples, economies, cultures, and political processes are increasingly subjected to international influences and people are made aware of the role of these influences in their everyday lives (1997: 21).*

This author's view is that it is a process which engages with trade, communication, technology, ideas, culture and the flow of capital across national boundaries. There are writers (Mishra, 1999; Baker, 2000) who contend that globalisation has led to marginalisation and exclusion because of downward pressures on systems of social protection, changing labour market conditions and increasing inequality in wages. Social exclusion is much more than economic deprivation. As the Nobel Prize economist notes: "The real debate on globalization is ultimately, not about the efficiency of markets, nor about the importance of modern technology. The debate, rather, is about the inequality of power, for which there is less tolerance now than in the world that emerged at the end of the Second World War" (Sen, 2000).

## Background Information

The cornerstone of our democracy is the Constitution, together with its Bill of Rights. The Constitution enshrines human rights, a common South African citizenship, universal adult suffrage, a multi-party democracy, a free press and judicial review of government.

*The Bill of Rights* upholds civil and political, language, cultural and children's rights. The right to social security, education, health care, food, water and housing are also among the social and economic rights.

As an emerging democracy, South Africa had to contend with the demands of national issues such as rising unemployment, poverty and inequality, and acknowledging the expectations of the electorate which were buoyed by a victorious democratic election. At the same time, South Africa had to become a contender in the globalised world of capital, trade and technology flows, as it subscribed to the World Bank and IMF's requirements of reducing national debt, fiscal prudence, increasing economic growth and liberalizing the economy.

Government expenditure was deracialised and became more redistributive in the post-apartheid period with a greater portion of the budget earmarked for the poor. The newly elected democratic government was clear that poverty eradication was a crucial issue and thus committed itself to being a signatory to the World Summit for Social Development's Copenhagen declaration of reducing poverty (1995). South Africa is a signatory to many of the global agreements on children, women and older people. These agreements directly target certain sectors of society who have been historically marginalised in the past, namely, women, children, youth, and the poor and rural communities. South Africa is also committed to the Millennium Development Goals (MDGs). These MDG targets include: halving poverty reduction by 2015, provision of universal primary education in all countries, the reduction of the infant and under-five child mortality rate by two thirds and the reduction of maternal mortality by three fourths.

The Growth, Employment and Redistribution (GEAR) policy is an orthodox macro-economic framework introduced in 1996 which proposed labour market reforms, privatisation, trade liberalisation, and a reduced budget deficit. According to Seekings and Natrass (2005: 350), only that latter two were achieved. They contend that the pattern of labour market reforms certainly contributed to GEAR not meeting its targets. GEAR's main aim was to focus on increasing economic growth and improving job creation. The latter has been difficult to achieve because there are always more work seekers than there are jobs. For the period 1995 – 2002, using the expanded definition of unemployment, Borat (2005) indicates that the economy created 1.6 million jobs. However, in that same period, there were 5 million new job seekers. Therefore, this does indicate jobless growth, but that the South African employment growth was insufficient relative to the growth in the labour force (Bhorat, 2005: 1-2).

With President Mbeki's State of the Nation address in May 2004, there was a concerted shift in policy with respect to increasing government expenditure on the social security net. The Expanded Public Works Programme (EPWP) was introduced, together with community development workers who were to identify individuals who are 'down and out' and draw them into the social security net and the municipal indigent policies.

## **Policy Context of Local Economic Development**

The White Paper on Local Government (1998) introduced the concept of 'developmental local government' which is defined as "local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives". The policy document makes it quite clear that local government is not responsible for creating jobs. Instead, it will be responsible for ensuring that overall economic and social conditions of the locality are conducive to the creation of employment opportunities. Therefore, local government is charged with creating an enabling environment. Although credence is given to other stakeholders such as the private sector, NGOs and others, local government is at the centre of the LED development planning debates in contemporary South Africa (Rogerson, 2006; Nel, 2001). The statutory principles for developmental local government are contained in the legislation of the Municipal Systems Act of 2000. A key component of the Act is the issue of Integrated Development Planning of which LED is regarded as a core aspect. The Integrated Development Plan (IDP) is conceptualised as a tool to assist municipalities to achieve their development mandates (DPLG, 2000). In South Africa, Integrated Development Planning is defined as: "a participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity and the empowerment of the poor and the marginalized" (DPLG, 2000: 15).

The Constitution (1996) places great responsibility on municipalities to facilitate LED. However, the schedule in the Constitution that identifies the functions of municipalities does not include LED. Therefore, it can be interpreted that LED is an un-funded mandate for municipalities (DPLG, 2006). Given the Constitutional imperatives of municipalities facilitating LED, and the contrast of the schedule which includes the function of municipalities which does not mention LED, it can be argued that municipalities have a facilitating role in providing an enabling environment for investment through the provision of infrastructure and quality services, rather than programmes for job creation.

Accelerated Shared Growth Initiative- South Africa (ASGISA), introduced in 2004, a national shared growth initiative, has as its core objective to halve poverty and unemployment by 2014 (Deputy President, 2006). It is clear that ASGISA is focusing its attention on women and youth, particularly on women with an emphasis on human resource training; access to finance; fast tracking women out of the second economy; ensuring participation in agriculture and creative industries; improving access to basic services; and increasing their participation in expanded public works programmes.

The vision that forms the core of Department of Provincial and Local Government's (DPLG) Policy Guidelines for Implementing Local Economic Development in South Africa is of 'creating robust and inclusive local economies that exploit local opportunities, address local needs and contribute to national development objectives such as economic growth and poverty eradication' (DPLG, 2005: 10).

The World Bank's website defines LED as "Local economic development is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community". The approach to LED is advocated by the World Bank and supported by United Nations Habitat, the International Labour Organization (ILO), and is aligned with the National Framework for LED in South Africa (DBSA, 2006).

### **Local Economic Development in a Globalised Context**

Local economic development has been promoted for almost two decades in South Africa. The thinking that accompanies this approach is that bottom-up strategies are to be encouraged rather than a centralised, top-down approach. These are integral to development thinking. LED can be defined as:

"a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area" (Zaaijer & Sara, 1993:129).

Research on international experiences suggests that opportunities which emanate from economic globalisation have been more restricted and the threats more severe from low and middle-income countries, and especially in marginalised areas (Hindson, 2007). South Africa is considered to be a middle-income country, and certainly has marginalised sectors within it. It has been said that globalisation is not only about the logic of integration, but it is also about the logic of marginalisation and exclusion. Therefore, some parts of a nation become linked into the world economy, and others remain irrelevant, or invisible to global flows, unless there is a war or disaster which brings them into the national or international public radar (de Campos Guimaraes, 1998 in Hindson & Vicente-Hindson, 2005). There are municipalities which are able to attract more investment because of their size, in contrast to others which are small in comparison, and virtually unknown. For example, Thohoyandou (Limpopo) attracted R75 000 in capital funds in contrast to R16 million for Ekurhuleni (Gauteng) in 2003-04 (Parahanse, et al, 2006).

Global competitiveness in agriculture has increased since the 1990s, which is accompanied by increasing mechanisation. These factors have played a contributory role in which the South African government has elected to put minimum wages in place for farm workers, but with the consequence of commercial farmers not employing as many farm workers as they did previously (Davis, 2006). Other sectors such as mining and textile sectors have also been impacted by global competition. It has been estimated that nearly 1 million jobs were lost in the 1990s because of poor economic performance, global competition and deindustrialisation, with the gold mining industry being particularly affected (Lester et al., 2000; Wakeford, 2000 in Nel, 2001).

Research has demonstrated that liberalising trade in relation to the global environment has not necessarily been a major cause of decline in formal employment in the manufacturing sector. In the early 1990s, increased imports did displace labour, but it

was of a short duration. However, greater openness of the South African economy has not led to the kind of significant employment creation that has been demonstrated in other countries, such as East Asia (Jenkins, 2006: 196). More recently, the manufacturing industry has been retained and promoted despite an international environment which is highly competitive (Rogerson, 2006).

### **Challenges for LED and Social Welfare Policy**

It is noteworthy that any LED policy must acknowledge national realities and the globalised context. Some of the district municipalities and smaller municipalities in South Africa have weak or declining economic bases with increasing numbers of unemployed and under-employed people, while many of the metropolitan areas have relatively prosperous economies which are connected to the global system (Hindson & Vicente-Hindson, 2005). Even though metropolitan areas are prosperous, there are sectors within the cities that are poor such as townships and informal settlements which are integral to the sprawling metropolis. Many municipalities still remain unclear about the meaning of LED and how to implement it (Meyer-Stamer, 2002 in Rogerson, 2006). Unemployment was acknowledged as the number one priority issue of local concern in most South African municipalities in an International Labour Organization investigation (ILO, 2002). Therefore, municipal actions facilitating creation of employment represent important options for poverty alleviation strategies. Natrass (2003) has noted that in South Africa LED cannot be attained without addressing HIV/AIDS and that HIV/AIDS cannot be addressed without poverty alleviation and employment creation.

Over the past decade, retrenchments in the mining, manufacturing, and textile industries had dire consequences for its workers. Historically, mining was a dominant industry in the Free State. The level of employment in the mining industry declined from 19% of total employment in the Free State in 1990, to 9.5% in 2002 (Davis, 2006). More than 50 000 workers lost their jobs in the Free State Goldfields (Nel, et al 2004 in Davis, 2006). The manufacturing industry declined in the Free State because of its proximity to Gauteng, low levels of skill, and the decline of the agricultural and mining sectors. These all have an impact on out-migration of the population. In the Northern Cape, De Beers has decided to close the only two diamond mines which provide employment for many people in Kimberley. The textile industry has lost many workers because of increasing global competition. Johannesburg was considered to be the third largest geographical area for formal clothing manufacture often preceded by the Western Cape and Durban. Reasons advanced for the decline in formal employment and closure of formal clothing factories in Johannesburg are low productivity, a concentration of Johannesburg producers on the lower-income end of the clothing market which is particularly sensitive to competition from imports, and a reluctance by clothing enterprises to undertake dynamic adjustments that might contribute to enhanced competition (Rogerson, 2003). Large numbers of workers have been retrenched, casualised and/or forced into the informal economy leading to a further expansion of the marginalized sectors (Ballard, et al, 2005: 620). Three hundred thousand (300 000) clothing workers were employed in 1996, and by 2005, they had decreased to 185 000 workers (Brown & Mde, 2005:1). The share of formal sector employment is decreasing. In 1995, 50% of GDP comprised the

wage economy; the wage share declined relative to the profit share to 45% in 2005 (Adelzadeh, 2006).

The Expanded Public Works Programme (EPWP) was launched in 2004. The purpose was to create labour-intensive jobs for unemployed workers rather than capital intensive technologies. The criticism of EPWP is that the average duration of these EPWP jobs is 4 months (McCord, 2006). A further criticism is that the supply of unemployed low and unskilled workers exceeds the demand for work. There will always be more work seekers than there are jobs. EPWP will not provide long-term, sustainable employment, and thus is not considered to be a credible response to the unemployment crisis (McCord, 2006).

Improving the delivery of infrastructural services to poor communities is an important LED role in support of poverty alleviation. Rogerson (2003) observes that a major step towards expanding the asset base of the poor is to enhance their limited access to the range of municipal services which would generally include water supply, sanitation, refuse removal, drainage, flood protection, local roads, public transport, street lighting and traffic management.

There are many people leaving the rural areas for the urban centres in the hope of obtaining employment. Many of them do not have the skills for the jobs in the urban areas. At the same time many migrants, both skilled and unskilled, from Sub-Saharan countries are moving to South Africa in the hope of securing employment.

### **Opportunities for Local Economic Development and Social Welfare Benefits**

International experience has demonstrated that local authorities can play a pivotal role in LED initiatives for poverty alleviation. Municipalities are strategically placed to undertake local long-term planning in the arena of poverty alleviation particularly as it relates to relationships with NGOs, CBOs, and the private sector (Pieterse, 2000). South Africa's acceptance into the international arena as a key player in the global economy, strategically encouraging investments into the country, promoting the role of the private sector and reducing the role of the central state, are all significant strategies to ensure macro-economic stability, and facilitate LED initiatives.

National government has provided a range of programmes that will facilitate LED endeavours with a more pro-poor focus. These include the following (Rogerson, 2006: 235):

- An LED Fund in 1999 which provides support for poverty relief schemes.
- The Expanded Public Works Programme which is a nation-wide programme aimed at utilising labour intensive methods to upgrade rural infrastructure and absorb significant numbers of unemployed into productive employment, even if for a temporary period.
- The national government's Urban Renewal Programme focuses in the main on issues of urban regeneration and targeted support for township areas, e.g., Alexandra and Mdantsane.

- The Integrated Sustainable Rural Development Strategy (ISRDS) which aims to build on existing support programmes through a well coordinated bottom-up approach to rural local economic development (RSA, 2000: vii).

The EPWP was created with the purpose of job creation, infrastructure development and service delivery, training and skills development (DBSA, 2005:30). Therefore, in the IDP planning, LED interventions should be integrated with the EPWP programme and the other programmes identified above. Most of the jobs that have been created to date for EPWP are located in construction. Since the inception of the programme, 300 000 jobs have been created, mostly for women and in the rural areas (Budget Speech, 2007). The idea of EPWP is to improve unemployed people's prospects by creating learnerships, life skills and on-the-job training.

Some municipalities have been engaged with local economic development since pre-apartheid days. Stutterheim, as a small rural town with 30 000 inhabitants in the Eastern Cape, became engaged in local economic development in 1990. Generally the Eastern Cape is characterised as a province with high unemployment levels, extensive poverty and the lack of access to basic services for many of its people. In the 1980s, the town was divided by racial and political conflict. A consumer boycott of white-owned businesses crippled the town's economy, police brutality had spawned bitterness and resentment in the black community, and thus it was a divided society without much hope for the future. In May 1990, leaders of the black and white community came together, and eventually over a period of time, trust was established, representative structures and management committees were established, together with a trust fund. The Stutterheim Development Fund was established in 1992 as a non-profit organisation to manage the development project. The LED initiative in Stutterheim is considered to be a role model for racial reconciliation and locality-based development that improved conditions for the most disadvantaged (Nel & McQuaid, 2002). Nel (2001: 1009) comments on the noteworthy efforts of the Stutterheim Development Forum to try and achieve racial reconciliation and promote development, clearly served as a model for similar public-private community ventures elsewhere.

The onset of local economic crises in the form of mine closures, declining manufacturing and clothing industries have been an impetus for proactive LED initiatives. Tourism as an industry has been encouraged. There is considerable promotion of tourism-led activities across large cities, smaller cities and localities. Many of the large cities have developed new convention centres for international conferences and business meetings, waterfront developments are built and hosting of festivals are held to attract tourists. The hosting of mega events such as the World Cup Rugby in 1995, the Cricket World Cup, and the HIV/AIDS conference in Durban and the 2010 FIFA World Cup all offer opportunities for maximizing tourism-led growth opportunities in several South African cities (Rogerson, 2006: 232). Another success example is that of the coastal town of Stilbaai in the Western Cape. Various tourism and promotional endeavours have achieved near full employment (Stiftung, 1999 in Nel, 2001). This development initiative was fostered by a strategic partnership between local business, tourism authorities and the local authority.

Selective targeting of the textile industry for LED interventions can be important for pro-poor interventions. The textile industry is one of the major growth points in the emerging SMME economy of inner-city Johannesburg (Rogerson, 2003). There are a range of entrepreneurs –many of whom are providing job opportunities for South Africans, whilst others are micro-entrepreneurs who are women, and are primary household income providers. Some of these women generate incomes of no more than R 1 500 per month (BEES Trust, 2002 in Rogerson, 2003). LED interventions supported by the City Council of Johannesburg can assist in alleviating poverty for the clothing micro-enterprise operators via social capital enhancement and micro-enterprise development, training and support for social welfare services (Rogerson, 2003).

The role of social and human capital is crucial to the success of LEDs. Communities with a high degree of social capital formation are more prosperous than those with a low degree of social capital (Midgley & Tang, 2001: 249). Social capital is those informal institutions that speak to reciprocal relationships, networks, cooperative ventures and a mutual trust engagement among community members in their resolution of existing problems and issues. Low income communities with high levels of crime, social disorganisation and despair have low social capital, as well as low levels of economic development. Therefore, the findings suggest that programmes which foster social capital formation have a positive impact on economic development, incomes and standards of living. This calls for the application of traditional community development skills to strengthen social networks and promote social integration. The development of social capital requires investments in programmes that mobilise local people around a variety of local development initiatives. External investments in new enterprises should be made with the cooperation and support of local people. Micro-enterprises should be supported, and local people should be encouraged to be patrons to local businesses. Development must be accompanied by redistribution through social investments in key social sectors that can make a significant contribution to human and social capital formation, and improve the human development status of the majority of the population (Patel, 2005: 103).

In order to strengthen the asset base of poor communities through LED measures, a number of broad intervention areas are identified (Rogerson, 1999 in Rogerson, 2003). Three key policy areas in urban South Africa have thus revolved around the improvement of regulatory frameworks, the major extension of municipal services and infrastructure delivery, and issues of employment creation or livelihood support through more conciliatory approaches towards the informal sector and home-based economic activities in cities (Rogerson, 2003).

## **Conclusion**

The LED experiences in South Africa are making a contribution to the debates in the international arena, in particular as it relates to pro-poor LED initiatives (Rogerson, 2006: 227). LEDs are also a reflection of the globalised forces of local and international realities –the large metropolises will attract investments, but the smaller localities will

either receive smaller investments, or not be visible at all. Therefore, larger and particularly smaller municipalities do require support in terms of knowledge, skills and being able to integrate their resources to create the enabling environment for entrepreneurs, micro-enterprises and livelihood support. Social workers are well-placed to provide the support in creating an enabling environment.

Beverley and Sherraden (1997) have argued that investments in basic needs and human capital will yield positive social returns in the form of increased participation, connectedness and social stability, whilst economic returns yield increased productivity, economic growth, and reduced income and asset inequality. These social programmes focus on material needs, invest in what Amartya Sen (1985; 1999) refers to as human capabilities and promote participation and social inclusion in the economy and society.

The ultimate goal of social welfare is to improve the well-being and quality of life of society, particularly of poor and marginalised people in South Africa. When social goals are combined with economic objectives whereby there is investment in human capital, the well-being of all individuals in society can be achieved.

As Ife (2000:62) comments: “No longer can we think globally, act locally, but rather it has become necessary to think and act at both local and global levels, and to link the two”.

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