

# The Impact of Local Economic Development (LED) on Poverty Alleviation in South Africa: A Theoretical View

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## Abstract

The purpose of this study was to evaluate the impact of the Local Economic Development (LED) policy on growing South African local economies as well as transforming the lives of previously disadvantaged groups. South Africa has had challenges in its endeavor to strike a balance between developing pro-growth and pro-poor LED strategies resulting in many scholars branding 'LED strategies in the country as more of pro-growth rather than pro-poor'. This argument has therefore put the role of LED as a tool for poverty alleviation in the spotlight. Thus, to really establish the real picture on the ground this study was carried out using qualitative research approach where reference was also be made to LED campaigns on a global level. The findings of this study include: Lack of common understanding of the role of LED and LED processes, Ineffective pro-poor LED strategies, Lack of LED that suits the South African context, Inability of LED to spatially transform South African cities, Inadequate planning resources and capacity and The ineffective relationship between provinces, districts and local authorities. The study therefore recommends the following: an obligatory level of accountability and responsibility from all role players affected by the projects, Rigorous monitoring and evaluation of the outcomes of LED projects, striking a balance between pro-poor and pro-growth strategies and heightening investments and resource deployment toward historically disadvantaged communities.

**Keywords:** Local Economic Development (LED), Poverty Alleviation, Historically Marginalized Communities.

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## 1.1 Introduction

Since the dawn of democracy in 1994, South Africa has had, until now, to deal with the challenge of reintegrating itself into the global economy as well as eradicating the imbalances perpetrated by the apartheid regime. It is against this background that the state adopted various developmental policies in order to promote economic growth and poverty alleviation. The Local Economic Development (LED) policy is among these policies. However in spite of the frantic efforts by the government to salvage the impasse, not much has been accomplished in terms of poverty alleviation and various factors have constrained these efforts (Cameron, 2000).

Socio-economic and spatial realities are so acute that South Africa is known for its geographical economic inequalities and extreme poverty such that in 2008, 48 percent of the South African population was living well under the poverty datum line (NPC, 2014). Thus, the post-apartheid state has been working hard to redress the problem of poverty and one way through which it has been pursuing is through Local Economic Development. Meyer-Stamer (2003) points out that this approach had the sole objective of alleviating poverty, developing infrastructure and uplifting historically disadvantaged communities. Thus, as much as there are other strategies the government has been using to try and combat poverty such as provision of housing and basic services at no cost and social grants, LED is has played a pivotal role in this regard.

Rogerson and Nel (2007) assert that during the apartheid era, government focused on the development of non-black occupied areas. This disparity meant that black occupied townships and rural areas were marginalized meaning they did not have adequate resources in order to better their standards of living. This is the background that necessitated the launch of LED in order to bridge the gap. According to Nel and McQuaid (2002), this approach was firstly launched in Stutterheim, a small rural service centre in Eastern Cape South Africa where (Palframan 1992) alludes to the fact that this town where everything was wrong had become a model of everything good that comes as a result of people working together for a common purpose of future development.

Furthermore, Nel (2001) asserts that even after ten years of LED implementation, there has not been a notable change in the plight of the historically disadvantaged communities who are still languishing in abject poverty. Boule (2005) points out that the challenges that are affecting the LED are neither the political will nor prioritization of the issue at hand, but rather they evolve around the failure to effectively implement the strategies in order to come up with satisfactory results. Many scholars have called for measures that will ensure more of pro-poor than pro-growth developmental initiatives. A good example is the Spatial Development Initiatives launched in 1995 which served as a support structure for the Growth, Employment and Redistribution (GEAR) policy (Rogerson, 2004). According to Crush and Rogerson (2012), in spite of the economic development and growth associated with SDIs to certain regions, the benefits to the poor have not been that significant.

The research will therefore explore more on the overall challenges that have prevented LED from effectively accomplishing its goals and objectives of alleviating poverty through reducing high unemployment, provision of

better basic services and infrastructures. Recommendations shall also be given on how to overcome these challenges. Literature shall also be reviewed in order to have a global feel of how developed and other developing nations are managing the LED phenomenon.

### **1.2 Problem Statement**

The government of South Africa has, since attaining democracy, been fighting poverty among historically disadvantaged communities and one approach that has been taken is the implementation of the LED strategy. Nevertheless, in spite of this initiative, significant development and poverty alleviation among the previously marginalized groups is yet to see the light of the day (Nel 2001). It is therefore on the premise of this assertion that this study was carried out.

### **1.3 Research Objective**

The aim of this research is:

- To investigate the impact of the government LED interventions have had on poverty alleviation in South Africa.
- To establish whether pro-poor LED has yielded the intended positive results of sustainable and equitable social, economic and spatial development in South Africa.

### **1.4 Research Question for the Study**

Since their inception, how are Local Economic Development activities in South Africa contributing toward poverty alleviation in terms of: job creation, business creation, provision of basic services and infrastructure development?

#### ***Research Sub-questions***

In order to gain a deeper understanding of the research topic, the following sub-questions are explored:

- What impact has the government LED interventions have had on poverty alleviation in South Africa?
- How has pro-poor LED fared in yielding the intended positive results of sustainable and equitable social, economic and spatial development in South Africa?

### **1.5 Significance of the Research**

This research will undoubtedly give a very important insight into both the theoretical and practical dynamics of LED in the South African context as well as the challenges that have inhibited its efforts to achieve the goal of poverty alleviation. The survey will help unearth the reasons behind the disparities that exist between pro-poor and pro-growth strategies in South Africa and how this gap can be breached in order to strike a balance. At the same time the study is meant to establish if LED is really the best strategy the government should throw its weight behind in its efforts to alleviate poverty or should they consider alternative approaches. Last but not least, the research will contribute to the broader scope of promoting development agendas that support the poor since it is believed that the poor are far behind in terms of economic development many years into democracy.

## **2. Literature Review**

### **2.1 Theoretical Perspective**

Various scholars have defined Local Economic Development in different ways. According to Hasan (2008), Local Economic Development is a process of engagement that aims to involve all role players and stakeholders in activities that are meant to stimulate the economic activity of a given area. This is achieved through harnessing various resources such as human, capital, natural and institutional resources in order to make the area as independent as possible. This definition of LED is an inclusive and participatory one whereby different internal and external stakeholders including the local community are brought on board and are given the platform where they can give their input regarding developmental activities they would want to see in their area. This means LED gives the locals a sense of ownership and responsibility as far as promoting development in their area is concerned. Thus, LED is a way of empowering and uplifting communities that have been historically marginalized in the case of South African communities.

Wekwete (2014) defines LED as a remedy or responds to the instability of local economies emanating from failed regional policies. He asserts that the flaws in regional policies that have caused disparities have inadvertently caused internationalization of economic activity and an increase in investment mobility which has led to the emergence of LED.

### **2.2 Emergence of Local Economic Development in Developed Countries**

Industrialized nations have taken LED as a general instrument of development strategy at the lowest level of government which promotes and helps to accomplish national development objectives. LED programs and projects began in the major cities of developed nations going through notable transformations during the post war era

(Blakely, 1989). The huge number of the old industries which employed millions of people were deteriorating because of global economic reform and technological change (Wekwete, 2014)

In Europe, “textile industries, shipbuilding, steel making and other traditional heavy industries on which the cities were built, moved to other overseas locations leaving a trail of declining and blighted cities” (Wekwete, 2014). The same economic challenge happened in the United States where because the world transfer of capital was no longer lucrative but rather affected local economies negatively as factories moved away resulting in unemployment and economically depressed regions and cities (Blakely, 2009). Thus, it is clear that there still remains a relationship between the establishment of LED and the quest to eradicate unemployment, poverty and economic decay not only in developing countries but also in industrialized nations like Western Europe, North America and Japan as well (Birkhölzer, 2005). As the years went by the establishment of LED was also perpetrated by increasing number of socially and economically marginalized group of people in given countries like Eastern Germany that were dealing with economic transformation resulting in more economic and social issues (Birkhölzer, 2005).

### **2.3 Emergence of Local Economic Development in Developing Countries**

MeyerStamer (2003) asserts that the LED strategy dawned on the majority of developing countries not only through their own initiatives. Actually external stakeholders such as donor agencies, (the World Bank, the International Labour Organisation (ILO), and the United Nations Development Programme (UNDP)), assumed and implemented LED as an alternative development approach or strategy. Furthermore, Meyer (2010) went on to point out that most developing nations found LED very enticing considering the advantages that come with it such as decentralization where development is promoted at lower levels and also the prospect of dealing with unemployment and poverty at local government. Internationally, development scholars agree with the potential of LED in uplifting the quality of life in the developing world (Meyer, 2010: 1).

However research has proved that developing countries are encountering various contextual challenges as compared to developed countries and the need for LED to help overcome these hurdles becomes amplified. The reasons behind these challenges vary from the fact that most of the third world countries are recently coming out of civil wars (eg. Central America, Colombia and Mozambique); their governments have adopted the highly centralized approach to governance, the prevalence of SMMEs that are scattered all over whose markets are limited, inadequate public support making local administrations incapable of supporting economic activities and employment; insufficient financial backing and poor infrastructure network (Cazanelli 2012). Wekwete (2014) asserts that LED in the third world countries is buoyed by the fact that the major stumbling block to economic development is that it “occurs unevenly and inequitably across economic space, landscape and social groups, creating major challenges in terms of satisfying the needs of the citizens [with regards to] employment opportunities, wealth creation and services particularly for disadvantaged and marginalised groups”. In contrast to developed countries, LED in developing countries focuses more on establishing new opportunities in areas which were previously marginalized as well as rural areas where governments are promoting productivity. In Southern Africa for example, reasons for the establishment of LED include “the fractured and artificial political boundaries which have distorted the economic map of Southern Africa; the nature of economic development which has been based on dependence on exporting primary commodities with limited manufacturing and technological development; the high degrees of economic and spatial inequality and imbalances prevailing in the national economies; and in general Africa’s weak positioning in the global economy” (Wekwete, 2014).

In-spite of not having reasons for the establishment of LED, countries in Latin America still took the initiative in response to local economic crisis circumstances together with the limited appropriate legislative responses coming from national government to take care of them (Albuquerque, 2004).

### **2.4 Local Economic Development in South Africa**

In South African, the LED phenomenon dates back to 1994 when the country attained its democracy. During the apartheid era, the majority of the population suffered brutal marginalization and discrimination at the hands of the white minority who wrestled means of production from them, condemning them to crowded areas where development was non-existent (Patterson, 2008). Any form of development was so centralized such that these initiatives and programs were only confined to its towns and cities, without taking cognizance of the plight of the poor folk in townships.

The advent of democracy in 1994 ushered in a new era where the government embraced the LED phenomenon in order to promote the development of formerly underprivileged, impoverished and marginalized townships (Patterson, 2008). Thus, the post-apartheid local government system is met with a huge challenge of bridging a huge gap that was left by the apartheid era and research shows that from 1995, Constitutional debates related to the future design of local government expressed a much more active role of municipalities in development (Department: Provincial and Local Government, 2006-2011). Therefore the constitution reiterated the importance of the local government to come out of slumber and put in place short and long terms plans that are designed to

promote socio-economic development in localities (RSA Constitution, 1996).

#### *Decentralisation and developmental local government in South Africa*

While the apartheid government's planning was focused and more centralized giving very developmental role to local authorities (SALGA, 2010), the post-apartheid government decentralized the approach and empowered municipalities and local government, giving them the jurisdiction to come up with plans that are meant to promote development of localities and help the people come out of poverty through employment creation and betterment of service delivery and infrastructures (Pretorius and Schurink, 2007).

### **3. Methodology**

#### **3.1 Research Methods Employed in Study**

A qualitative research approach has been adopted for this research. This research approach is one which "is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem" (Creswell, 2009). According to Welman (2005), this research approach attempts to gain an internal perspective of a problem by viewing it holistically and it embodies such methods as literature review, case study, interviews and mapping.

#### **3.2 Sampling**

According to Babbie and Mouton (2001), a study population is the totality of elements from which a sample is selected. Bless and Higson-Smith (2002) describe a population as the set of elements that the researcher focuses on and to which the obtained results should be generalized. In addition, Polit and Beck (2006) define the population as a summation of individual elements comprised of similar characteristics or traits.

Maree (2007) defines sampling as the process used to select a portion of the population for the study. Qualitative research is generally based on non-probability and for this survey; the purposive sampling was used as the researcher made reference to a particular case, (Cohen, Manion and Morrison, 2000).

### **4. Findings**

The research identified key findings which are:

#### ***Lack of common understanding of the role of LED and LED processes***

Defining LED has been contested on a wide scale since the concept was launched in South Africa. This has resulted in Integrated Development Plans (IDPs) using more than one approaches in the development of LED strategies. The challenge comes on choosing the most effective and sustainable LED strategy. A challenge also comes to local government and LED practitioners who will have the daunting task of interpreting and applying the many various policies, frameworks and legislation around LED.

#### ***Lack of effective LED networks in many areas***

Lead networks play a big role in determining success in LED practice. These networks add value to participatory approach to the development of strategies and the diverse roles that private and local authorities undertake in LED meaning that failure to establish them is tantamount to achieving mediocre results.

#### ***Lack of planning resources and capacity***

Research has established that smaller municipalities rarely possess the internal skills or resources that will enable them to procure external skills that are important for the development of effective and robust LED plans. Generally municipalities lack planning, economic and business skills leading to misguided action plans that will not yield desired results. The lack of monitoring and evaluation has had an adverse effect on the ultimate outcome of LED activities.

#### ***The practical spatial constraints of economic planning at a very local level***

All local areas are required, through the broader national policy guidelines, to develop and implement their own LED strategies. The challenge that accrues with this approach is that the magnitude of economic activities that exist have much stronger components which in most cases do not align with the boundaries of that particular local area. The hurdle that comes with this is that policies and guidelines will not be able to resolve issues that arise but instead assume that metros and smaller municipalities' economic structure have the same spatial reality.

#### ***Urban economic development overpowering rural economic development***

The gap between urban and rural areas in South Africa has been widening more and more in terms of prioritization in developmental activities. This manifests itself in the form of differences in job prospects, real incomes, standards of living and quality of life of individuals. In general, growth and development strategies and policies such as industrial and sector policies are pro- metro regions, culminating in overall good economic performance and a LED advantage with stronger LED networks, effective LED strategies and access to improved skills and resources in larger metros as compared to smaller ones.

### **5. Conclusion and Recommendations**

Research has shown that, if properly planned, implemented, monitored and evaluated, LED has the potential to

transform any given locality, region or nation at large. South Africa is no exception if all stakeholders are to work together for the common goal of alleviating poverty in the previously disadvantaged communities. Thus, in the face of very little that has been achieved since the initiative was launched at the dawn of democracy in 1994, it is of paramount importance that all stakeholders go back to the drawing board, rally behind the government efforts to redress the situation and harness resources towards the rescue of the plight of the impoverished communities. In light of this impasse, the researcher therefore recommends the following in order to bring about a paradigm shift to the current LED strategy and ideology:

- An obligatory level of accountability and responsibility from all role players affected by the projects.
- Rigorous monitoring and evaluation of the outcomes of LED projects thus benchmarking actual results against expected outcomes, taking corrective measures where deviation is noted.
- Striking a balance between pro-poor and pro-growth strategies and heightening investments on the former.
- Resource deployment toward historically disadvantaged communities for improvements in service delivery and infrastructures.
- Partnerships and networking between stakeholders, private sector, public sector, organizations and institutions.
- Political will is key in realizing LED plans or strategies. This does not only prioritize LED, but also raises awareness of what is being attempted to achieve thus garnering support from various entities.

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