

An adjustment of Emfuleni's Local Economic Development strategy towards economic sustainability

9.1 Introduction

In this chapter, the importance of Local Economic Development (LED) is discussed. Municipalities can develop a wide range of strategies to promote the development of their local economy. The most common LED strategies, as well as how they are implemented in Emfuleni, are discussed. Emfuleni's LED approach and initiatives are also evaluated, with special reference to the municipality's financial position.

Some proposals are given for altering Emfuleni's LED strategy to enhance economic sustainability. In this regard, the stimulating of an Inward Industrialisation Process (IIP), which could provide many jobs at lower wages, is discussed. Finally, the impact of large-scale, low-wage job creation on poverty is described.

9.2 The importance of LED

Local Economic Development (LED) in South Africa was mandated to local governments by the Republic of South Africa Constitution, Act 1996, and the White Paper on Local Government (1998). The aim of this mandate was to involve local governments in economic development to address poverty, unemployment and redistribution in their local areas. Local governments were also required to participate in various economic development programmes of the provincial and national government.

LED is a process and a strategy in which locally-based individuals or organisations use resources to modify or expand local economic activity to the benefit of the majority in the local community (Nel & Humphrys 1999:277). Local initiatives may either be self-generated by community members or stimulated by external agencies like a provincial government or development agency.

The Department of Provincial and Local Government (DPLG 2000c:1), however, defines LED as an outcome-based, local initiative that should be driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills to stimulate economic growth and development. The aim of LED, according to the DPLG, is to create employment opportunities to the benefit of all local residents. It should encompass all stakeholders in a local community who are involved in different initiatives aimed at addressing the socio-economic needs in that community.

According to Blakely (1989:58), LED is essentially a process by which local government and/or community-based groups manage their existing resources and enter into new partnership arrangements to create new jobs and to stimulate economic activity. The emphasis in locally-oriented economic development is on “endogenous development” policies using the potential of local human, institutional and physical resources.

The Local Economic Development Policy Paper (CASE 2001) stated that there is no single approach to Local Economic Development. Each municipality, therefore, needs to develop its own approach, best suited to the local situation in order to meet particular targets. Taking into account the employment and poverty profile of Emfuleni as described in Chapters 4 and 5 of this thesis, *an appropriate LED strategy for Emfuleni should ideally aim to stimulate economic development with the highest returns in terms of job creation, income generation and poverty alleviation.*

According to the International Republican Institute and National Business Initiative (IRI & NBI 1998:2,3) and Nel (1998:153,154), it is important that local governments promote LED in their municipal areas for the following reasons:

- LED is one of the logical ways in which to address the apartheid legacy by addressing socio-economic inequalities and promoting urban integration, job creation and service provision.
- LED can contribute to local employment, empowerment and wealth generation.
- LED can directly, or indirectly, promote economic development and empowerment of community groupings.
- LED increases income levels and enables people to pay for services. It broadens the tax base and the revenue base of the local authority.
- LED enables the local authority to provide more and better services and facilities to the local citizens.
- Local government councillors were elected on a mandate to undertake development. The local government is a dominant player in a local economy and is well-positioned to embark on development.
- LED builds new institutions for sustainable economic development and promotes linkages between developed and under-developed areas.
- There are not enough resources in South Africa to allow a welfare solution. Increasing local economic initiatives have to be undertaken because fiscal constraints on national and provincial government encourage and oblige local level action.
- LED can be a key component of, and a supplement to, a broader process of regional and national development and it can assist with the attainment of macro-economic policy objectives. LED can be a “grass roots” complement to “top-down” national development.

9.3 LED in Emfuleni

According to the Department of Provincial and Local Government (DPLG), municipalities can develop a wide range of strategies to promote the development of their local economy. Common strategies are, for example,

industrial recruitment and place marketing, SMME promotion and support, community economic development, export promotion and international trade, as well as business retention and expansion (DPLG 2000a:3-8). These strategies are discussed below.

9.3.1 Place marketing

Place marketing, according to the DPLG (2000a:3-8), means promoting and advertising the local area, so that people, businesses and industries see that area as a desirable place to visit, live in and work in. Industrial recruitment means attracting new industries to the local area. This creates new job opportunities for local residents and increases the local tax base.

Industrial recruitment and place marketing are sometimes separated as two different strategies. However, these strategies are closely linked. For example, a municipality may offer tax incentives as part of its industrial recruitment strategy, to attract new firms and industries to locate in the area. It is likely that the local municipality will not only advertise these incentives, but will also advertise the other attractions of the area, such as good infrastructure, a pool of labour skills, available amenities and entertainment. In other words, the municipality's industrial recruitment strategy will be coupled to its place marketing strategy.

Industrial recruitment strategies assume that businesses and industry locate in areas where production costs are lower. Companies will also consider factors such as whether there is a local market for their products and whether the area offers good infrastructure and services. These factors also affect the total cost of producing and selling a product.

Place marketing has therefore become an important way of distinguishing between local areas, and ensuring that companies and individuals are aware of the positive aspects and attributes of a city, town or rural area. For example, place marketing strategies could emphasise the benefits of a rural lifestyle in a healthy environment, or focus on the educational, cultural and entertainment opportunities offered by a city's schools, university, art galleries, exhibition spaces, clubs and music venues.

Local authorities can use a range of instruments to implement their industrial recruitment and place marketing strategies. Place marketing campaigns can include web sites on the internet, brochures, information desks and advertising on radio and television. Hosting sporting and cultural events is also a way of drawing attention to the location.

In the regeneration of the Vaal Triangle industries report commissioned by the Department of Trade and Industry (Bloch & Dorfling 2000:59), significant emphasis was placed on the marketing of the Vaal as a 'Clean and Safe Prime Business location in Gauteng with high-income housing, entertainment and tourism along the Vaal River to increase attractiveness.' The Vaal Research Group (VRG) made an effort to market the Vaal with its report "Prospects for Trade and Investment in South Africa's Largest Industrial Hub" (VRG 2000).

Internationally, municipalities have developed and marketed a range of incentives which aim to attract new businesses and industries to their areas. These include tax incentives, loan incentives, shared equity in projects, traditional land incentives (e.g. land acquisition, clearing and sale), land support (e.g. water and sewerage infrastructure), transportation (e.g. improved streets and improved parking), and services (e.g. improved public safety). However, in the case of Emfuleni there are serious backlogs in most technical services (PDG 2003:21).

In South Africa, the tax incentives offered by local authorities focus on land rates and taxes rebates, as the law does not allow municipalities to provide any other tax incentives. However, national government offers a wide range of financial tax incentives, which are provided and administered through the Department of Trade and Industry (DTI). Municipalities can benefit by linking with these national programmes which offer special incentives to business and industry. For example, DTI has initiated a number of Spatial Development Incentives (SDI's) and Special Economic Zones (SEZ's). These aim to concentrate and revitalise economic activity in particular areas through the provision of incentives such as cheap facilities and public utilities, access to labour, raw materials and mineral reserves and proximity to markets and transport facilities (DTI Group Communications 2001).

9.3.2 SMME promotion and support

Many LED initiatives focus on providing support to small, medium and micro enterprises (SMMEs). This strategy is often used to create employment opportunities. There has been a global decline in the number of jobs created by large manufacturing industries, with the result that municipalities have focused on developing small businesses as a way of creating new job opportunities (DPLG 2000a:5). The Emfuleni Local Municipality (ELM) currently manages 4 SMME projects in the Former Black Townships (FBTs), with a total employment of 90 persons (PDG 2003:8).

The potential for job creation through SMME development is receiving considerable attention in South Africa. National government, through the DTI, has adopted a range of policies to promote the development of SMMEs. Several programmes have been put in place to support small business by facilitating access to finance, training and development, research and information, markets and linkages, incentives and new technology (DPLG 2000a:5).

Whilst these national programmes provide a valuable support base for SMME assistance, local authorities can help ensure that local businesses have access to these resources and are supported by an enabling local policy environment. Local authorities can achieve these objectives by using their resources to provide information, establish Local Business Service Centres (LBSCs), create a regulatory environment suitable for SMME development, reform tender processes and provide public facilities for small business incubators and other support projects. By pursuing these initiatives, local authorities can make a contribution to job creation in their communities (IRI & NBI 1998:8).

Local businesses constantly need information and action from local authorities on a wide range of issues including licensing, tendering, rates, permits, zoning and building approvals. Long delays and confusing procedures associated with these processes can create difficult barriers. One of the most effective ways that local authorities can support both small and big businesses is to establish a central information centre that is the key contact point between all types of businesses and the local authority. One-stop shops or centres simplify the contacts that businesses need to have with government by streamlining and expediting approval processes and other procedures (IRI & NBI 1998:9).

One of the best ways that local authorities can assist SMMEs is by working with stakeholders to establish LBSCs. The failure rate among new and small firms is substantial. The need, therefore, for management and business training, counselling, research and other forms of support, is critical. LBSCs are community resource centres which provide these services to help small businesses get on their feet and eventually graduate into formal business enterprises. Since it first opened in 1986, the Empangeni Business Advice Centre (BAC), for instance, has played a pioneering role in the development of emerging businesses and is one of the first LBSCs to become fully accredited by the Department of Trade and Industry (DTI) (IRI & NBI 1998:10).

In Emfuleni, Vaalgro could have been considered to be a LBSC until recently. Vaalgro, however, is presently involved in a process of being integrated as a part of Vesco (Vanderbijlpark Estate Company). According to Dr. Edwin Basson (2004), the incorporated Vaalgro will continue to support small businesses, especially downstream manufacturing enterprises, and enterprises providing services to Iscor.

9.3.3 Community economic development

Community economic development is based on the concept of developing community self-reliance, through human resource development and skills enhancement. The central objective of this strategy is to alleviate poverty by improving the capabilities of disadvantaged communities to create sustainable livelihoods for themselves.

Community economic development focuses on combining employment training, human services and enterprise development to enhance access to and creation of jobs, careers and self-sufficiency for disadvantaged communities. In other words, this strategy aims to equip people in disadvantaged communities to be able to take advantage of existing job opportunities and to create new job opportunities by opening small businesses (DPLG 2000a:5).

Instruments that are often used to implement community economic development strategies include:

- employment brokering – which means connecting people who need jobs with available job opportunities;
- sectoral interventions aimed at identifying niches in the local economy that offer access to low and moderate-income people; in other words, a focus on supporting those industries and sectors which are most likely to provide job opportunities for poor households and individuals; and
- the identification of enterprises that can be established under community control. Municipalities can assist community groups to establish their own enterprises and businesses which will generate livelihoods for local people. (DPLG 2000a:5,6.)

The ELM has identified the tourism and entertainment industry as a potentially high growth sector that could provide considerable employment to low- and moderate income people. A proposed tourism and entertainment project, the Vaal Inland Waterfront, is in an early stage of development at present (PDG 2003:6).

9.3.4 Export promotion and international trade

Local authorities, particularly those in urban areas, increasingly base their LED strategies on export promotion and international trade. This is an era of globalisation and international competition and this means that companies will have to compete with another on a global basis. For example, if someone goes shopping for a television set at a local shop, he/she is faced with a choice between televisions made in ten different countries. South African companies that make televisions must therefore compete against a range of international companies producing the same product (DPLG 2000a:6).

In Emfuleni, most of the export-oriented industries are related to the iron and steel sector. In order to compete on the global market, large-scale restructuring needed to take place which resulted in large-scale retrenchments. Iscor alone retrenched 6,000 people between 1994 and 1998 (Urban Econ 1998:74).

To be able to compete internationally, local companies need to be able to develop products more cheaply than they can be developed elsewhere, or to develop better products, or to offer products which cannot be sourced from

anywhere else. Local companies also need to establish a presence in international markets – they need to make sure that consumers in other countries have the option of buying their product at their local shop.

Municipalities can help to make local companies more competitive by targeting sectors in which they have comparative and competitive advantages, and providing support to these sectors so that they can compete internationally. In other words, municipalities can assess the global market and see where there are opportunities to export products and services that can be produced locally at a competitive price. Municipalities can then provide targeted support to local businesses to help them produce competitive products and services, and ‘export’ them to South African and foreign markets (DPLG 2000a:6).

Export promotion strategies often involve higher level services and products, e.g. financial and communication services, and high-technology services and products. These sectors offer the most opportunities for export-led growth because South Africa is a world-leader in these areas.

A typical way in which municipalities can promote exports is the development of research and science parks. Research and science parks bring companies that offer similar services and are developing similar products together in a single space. This allows for the cross-fertilisation of ideas, as well as enabling the sharing of skills and technology, between companies.

For example, the Capricorn Park in the Cape Town metropolitan area aims to create a network of linkages to support innovation research and development. The brochure promoting Capricorn Park states that “the innovative and interactive cluster will give companies the opportunity to network extensively and thus develop a cutting edge on global competitiveness”. Although Capricorn Park is promoted as part of a regional economic development strategy by the Western Cape Trade and Investment Promotion Agency, it is indicative of the type of initiatives municipalities interact with, or may want to facilitate themselves more directly as part of an LED strategy (DPLG 2000a:7).

This idea of linking companies that provide similar products and services, is characteristic of export-promotion strategies. Many cities are attempting to create “islands of innovation”, where “SMART” firms (or firms that produce hi-tech

products and services) locate in close proximity to one another, and produce new export products. This strategy is most common in sectors such as the aerospace-, electronics-, pharmaceutical-, chemical-, instrument-, software- and business services industries. An example of this is ChemCity in Metsimaholo, which concentrates on chemical-related industries. Sedibeng District Municipality initiated a similar development (Sedichem) to be implemented in Emfuleni. The conceptual plan is that chemical SMMEs be developed in collaboration with the Vaal University of Technology. The DPLG donated R50 million for the development of Sedichem (Skosanna 2004).

Municipalities can also promote local products for export by attending trade fairs and marketing local products and services. In less than 30 years, Richards Bay has been transformed from a sleepy, holiday fishing village into one of the most dynamic commercial centres on the African continent. It has a massive deep-water harbour and exports coal, aluminium and other bulk products. The local municipality utilised strategies such as an investor-friendly approach, customer service, negotiation skills, marketing and post-investment service, to develop competitive advantages and economies of scale (DPLG 2000b). No such initiatives are at present under consideration in Emfuleni (PDG 2003:1-8).

9.3.5 Business retention, expansion and attraction

Business retention and expansion strategies (DPLG 2000a:7) refer to the measures that municipalities can take to ensure that firms within their area do not leave for a seemingly more attractive location. Business retention and expansion is similar to industrial recruitment in that the same measures that ensure existing firms do not need to seek premises elsewhere, will also help to attract new firms to the area. Business retention, expansion and attraction is a very important strategy in obtaining and keeping economic sustainability.

One of the most important ways in which local authorities can ensure that an existing business is retained is by the provision of adequate infrastructure and services. Where the municipality does not provide adequate infrastructure, businesses may be tempted to locate to other areas which offer better infrastructure and services. The streamlining of internal municipal functions, such as building-plan approvals, facilitated services linkages and the like, is also important. The efficiency of the municipality in a particular location often

influences decisions about where to locate a business. In extreme cases, an inefficient municipality may even drive existing businesses away.

By helping to attract new businesses, local authorities help to create jobs and increase their rates base. One of the most common mechanisms used by cities/towns all over the world to attract investment or encourage business expansion, is to give concessions, including substantial tax incentives to potential investors. Currently, South African local authorities are allowed to give incentives but must first receive approval from the provincial Premier.

The ELM has drafted an incentives policy, but awaits inputs from some senior management as well as formal Council approval (PDG 2003:6). There are some serious backlogs concerning the provision of technical services and infrastructure. The ELM has recognised that this problem needs to be addressed, and has put some initiatives in place. However, there is a need for a more strategic approach in this regard (PDG 2003:21).

9.3.6 Other LED strategies

The five categories of strategies outlined above (9.3.1 – 9.3.5) are not mutually exclusive. In practice, there is tremendous overlap between the various strategies and instruments. For example, SMME development can be promoted within the framework of the export promotion strategy. Alternatively, municipalities could choose to target support to SMMEs which are able to develop products for export purposes. Similarly, community economic development strategies can be enhanced by industrial recruitment and place marketing instruments. It is also important to remember that within each category of LED strategy, there are a wide range of LED instruments and tools (IRI & NBI 1998:7).

The IRI & NBI (1998:7-37) refer to nine LED tools and strategies that local authorities use or can use in South Africa. SMME development and business retention, expansion and attraction have already been discussed above. The other seven tools and strategies which are related to some of the strategies already mentioned are as follows:

- Development of creative and effective regulations and by-laws.

- Local authorities can play an active role in encouraging growth and development by creatively utilising the land, buildings and other assets owned by them. Many local authorities can, for example, transform disused warehouses or other buildings into small business incubators or “hives”.
- Municipalities in South Africa, like many municipalities around the world, are faced with increasing demands for improved services, ever-tightening fiscal constraints and strong competition for scarce resources. Many successful local authorities respond to this challenge by exploring and utilising Public Private Partnerships (PPPs) as a way to improve the delivery of services. The main approaches to PPPs include service and management contracts, leasing, concessions and privatisation.
- Human resource development is pivotal to economic success. Efforts to develop the human resource base of a community are designed to provide citizens with the skills they need and information they require to find and secure employment. The establishment of the eThekweni Business Development Centre in 1997 in the Durban area is an example of an institution helping city residents to build skills. This can lead to sustainable small businesses.
- Local authorities can work with local promotion groups and development agencies to establish an effective marketing strategy. They can also appoint marketing consultants or utilise the services of local publicity associations and tourism boards.
- Creating regional linkages by developing co-ordinated initiatives, such as marketing strategies, tourism development or infrastructure plans with neighbouring localities, local authorities can often magnify the impact of their own efforts while reducing costs. The ‘Midlands Meander’ in KwaZulu-Natal is a good example of this LED strategy.
- Local authorities can help to limit money outflow that creates economic leakage in a region. “Buying locally” campaigns could have a significant impact in a community at no additional cost. Action steps

for plugging the leaks in a local economy can include the determination of local buying patterns, increased public awareness and periodic markets. For instance: once a month on ‘pension day’, a market is held in the villages of Mgwali and Wartburg near Stutterheim in the Eastern Cape. It is funded by the Independent Development Trust and promoted by the Stutterheim Development Foundation. Entertainment and cultural events are held at the same time, thus making marketing days important social occasions in the life of those communities (IRI & NBI 1998:7-37).

Municipalities can promote local economic development in their areas in a number of ways. They may assume different roles at different times and they may play a more direct role in some LED initiatives than in others. Nearly every effort to develop a local economy will require some input, participation and support from local government. In Table 9.1 the different roles or combinations of roles that municipalities can play in LED is given.

TABLE 9.1 ROLES MUNICIPALITIES CAN PLAY IN LOCAL ECONOMIC DEVELOPMENT

Municipal role	Explanation of municipal role
Co-ordinator	In this role, the municipality acts as a co-ordinating body. An important tool for co-ordination is the Integrated Development plan (IDP), which draws together the developmental objectives, priorities, strategies and programmes of a municipality. The IDP can be used to ensure that LED initiatives are co-ordinated with other municipal programmes and appropriately linked to national and provincial initiatives.
Facilitator	In this role, the municipality improves the investment environment in the area. For example, the municipality may streamline the development process, or improve planning procedures and zoning regulations.
Stimulator	In this role, municipalities stimulate business creation or expansion. For example, the municipality may provide premises at low rent to SMMEs, or compile brochures on local investment opportunities, or promote a particular tourism theme or activity in a key venue.
Entrepreneur or Developer	In this role, the municipality takes on the full responsibility of operating a business enterprise. A municipality can also enter into a joint venture partnership with the private sector or a NGO.

- Source: DPLG 2000b:2 (adapted).

9.3.7 Evaluation of Emfuleni's LED approach and initiatives

Taking into account the different approaches to LED as outlined above, it appears that Emfuleni at present has a fairly weak approach towards LED. Although Emfuleni's LED strategy was completed in March 2002, it has been implemented only partially. Key personnel appear to be unaware of the detail of the LED. There is a lack of prioritising performance targets, a lack of integration of initiatives and no integration of strategies by other levels of government. In general, there is a poor understanding of LED by municipal management and LED is under-resourced overall. (PDG 2003:5).

Although Emfuleni has developed a draft incentive policy, there is a lack of prioritising job creation as a primary reason for offering incentives. There is also a lack of targeting to attract particular industries and a definite lack in using existing competitive strengths and comparative advantages. There is also a distinct lack of ways to make local incentives complementary to those incentives offered by other spheres of government and also a lack of resourcing implications with a clear delegation of responsibility. Although the Inland Waterfront proposal could have a major impact on the Emfuleni economy, there has been only very limited market research on the viability of the recreation industry in the area. Also, no attention has been given to gaps in current infrastructure and services (PDG 2003:6).

Emfuleni's SMME promotion is limited to an industrial hive in one of the 'townships' (Bophelong), with a job creation potential of 45 persons. The hive consists of 9 workshops, where sewing, welding, baking and catering small businesses are housed. Ownership is vested in a co-operative. A pilot program with 3 projects for hydroponic cultivation of tomatoes and cucumbers is currently managed by the Council and employs 45 people (PDG 2003:7).

Recognising the need for intervention in the local economy to reverse long term economic decline, Emfuleni Council and local stakeholders formed the Vaal Economic Regeneration Board (VERB) in 2001. VERB was an independent business forum initiated by the Vice-Chancellor of North West University (Vaal Campus) and the Vaal Research Group. Key players in VERB were the managing directors of the larger manufacturing industries like

ISCOR, Sasol, Cape Gate, Samancor, Dorbyl, the mayors of Emfuleni, Midvaal, Sedibeng and Metsimaholo. The key advantage of this body was that it encompassed all key local government players and therefore had capacity to deliver broader, 'regional' business support and investment attraction initiatives. However, industry soon lost interest in VERB because of political manoeuvring by Sedibeng District Council.

VERB identified several projects (see Section 6.7) that could have served as a stimulus to the local economy. However, in its strategic review, PDG (2003:2-8) discovered that most of these initiatives and projects were no longer under serious consideration by Emfuleni Local Municipality. Both the international cargo airport and the Industrial Development Zone were considered not to be feasible as a decision had already been made at provincial level to promote an IDZ near to Johannesburg International Airport instead. A body like VERB could have played an important role as a well-connected, high-powered lobby group in promoting the interest of the area (PDG 2003:18).

Emfuleni has recently put out tenders for the formulation of a marketing strategy. Specific strategies for place marketing, industrial recruitment, SMME promotion and support, community economic development, export promotion and business retention, expansion and attraction should be incorporated into this marketing strategy.

9.3.8 Financing of LED in Emfuleni

In its strategic review of Emfuleni Local Municipality (ELM), done in 2003, Palmer Development Group (PDG) in association with Organisation Development Africa (ODA) (PDG 2003:12), found Emfuleni Local Municipality to be in an unsustainable financial position. Expenditure exceeded revenue, while debt levels prevented any building-up of reserves or performance of adequate maintenance. Contributing factors to this situation is the fact that ELM currently provides services that many of its communities cannot afford, to such an extent that ELM's income is under threat. Lack of proper maintenance (which is, in effect, a form of asset stripping) has not been reviewed by the ELM and has the potential to cause long-term financial distress.

Service payment levels are currently 78% of billed amounts which is significantly lower than in many other municipalities, and far below the National Treasury's target of 97%. This has a major impact on the sustainability of the municipality, more than any other issue. Emfuleni is recorded as having the highest average service access of all major municipalities after Sol Plaatjie Municipality. This is largely the result of large-scale RDP housing delivery and upgrading that has occurred within the municipal boundary since 1994. These housing units typically have ESCOM-supplied electricity with water-borne sanitation, on-site water and weekly refuse removal supplied by the municipality. This has resulted in increased operating and maintenance costs for the municipality, without the related income stream due to the indigent nature of the majority of the beneficiaries. Payment levels of RDP houses are only 4% - 5% of billed amounts (PDG 2003:4).

The 2002/2003 capital budget of Emfuleni was R39 million, or 3,6% of the operating budget. Due to cash-flow constraints, this is far below the municipal norm of 8% - 12% (ELM 2003:12).

The bad debt provision in Emfuleni has a direct relationship to payment levels. Due to Emfuleni's extremely high cumulative debt burden, this element of planning takes on a pivotal role. Outstanding consumer- and other debts increased by 14.9% between June 2001 and June 2002 to R1 083,3 million. After writing-off some of these debts in late 2002, the ELM still assumes that Emfuleni will have to provide an estimated R108 – R219 million (varying according to the payment levels achieved) towards bad debt in 2003/04 (ELM 2003:13).

Due to a lack of preventative maintenance expenditure, Emfuleni nearly lost its electricity reticulation licence and is faced with major water and electricity losses. Water losses are estimated at 26% of purchased bulk, and are significantly bigger than an acceptable municipal norm of 15%. Electricity losses are unknown, but they are estimated to be in the order of 13% of purchased bulk, whereas the municipal norm is at about 7% with lows in the region of 4%. An increase in maintenance expenditure levels from below 5% to the norm of around 10% is a crucial intervention required to secure service delivery integrity.

This growth will require provision for an additional R50 million on the Operating Budget for 2003/04 (ELM 2003:13).

With the abovementioned as a background, the chance that ELM (without assistance from local stakeholders) will be able to finance LED projects to stimulate the economy appears to be extremely low. Large projects, such as those proposed by VERB, seem to be beyond the capacity of the ELM.

9.4 Proposal for altering Emfuleni's LED strategy to enhance economic sustainability

In the preceding section, Emfuleni's dilemma in facing increasing demands for improved services, fiscal constraints and competition for resources was described. It is clear that Emfuleni on its own will not meet the sustainability challenge. It will be therefore to the benefit of the local community to explore Public Private Partnerships (PPPs) to seek solutions for the sustainability of the economy. Sedibeng District Municipality recently embarked on the formation of a development agency together with local industry and local business. This development agency could be of great importance in the search for solutions for the sustainability problems of Emfuleni. It is proposed that the ELM gives this initiative its full support.

Through the development agency, the ELM should seek support to bring the Inland Waterfront project towards the implementation phase. Apart from the Inland Waterfront project, the other viable initiative (mentioned earlier) was to stimulate and expand the manufacturing sector. Even if these two projects do fully materialise, it still would not be sufficient to create enough employment opportunities for the growing number of unemployed people. Even if an additional two large-scale projects could be brought to fruition, then the number of unemployed people and poor households would still not decrease. Therefore it is important that ELM should seek additional, as well as alternative initiatives in order to alleviate poverty. The abovementioned projects are aimed at increasing income and employment in the whole of Emfuleni, but despite this, the poor households will not benefit sufficiently in order to halt the growth in poverty.

In the light of Emfuleni's financial dilemma, it is proposed that the ELM should develop partnerships with local industry to embark on an Inward Industrialisation Process (IIP), where certain products that are consumed in the local community can be produced locally by labour-intensive methods on the one hand, and where, on the other hand, value-adding downstream products can be produced by the unemployed pool of labour with appropriate skills. By aiming specifically at the unemployed poor, most of the severe poverty could be alleviated in this way.

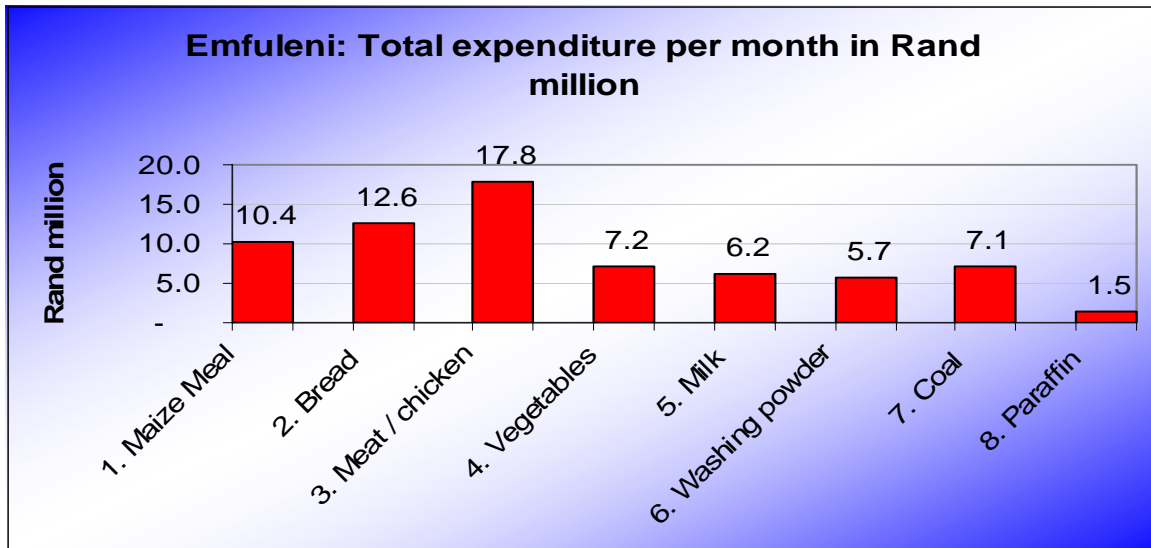
9.4.1 Inward Industrialisation to enhance sustainability in Emfuleni's economy

In Section 4.3, the unemployment rate for Emfuleni was determined at 54.1% for 2003. The unemployment rate amongst the poor is 71.8%. The greater majority of the poor (97.4%) live in the townships (Slabbert 2003). Job creation could have a major impact on the level of poverty, especially if it could be aimed at the unemployed poor.

In a survey conducted for this thesis in September 2003 (Slabbert 2003), it became evident that ample opportunities exist for the production of products that are consumed by the community. This is dependent, of course, on whether those interested could receive skills training, practical advice and financial support to initiate and start such activities.

Figure 9.1 below shows the total monthly expenditure on some products in the Emfuleni FBTs.

FIGURE 9.1 EXPENDITURE IN THE FBTS OF EMFULENI (2003)



• Source: Slabbert 2003.

Five of these products (maize meal, bread, meat, vegetables and washing powder) lend themselves ideally to an Inward Industrialisation Process where they could be produced by co-operatives or SMMEs with labour-intensive methods. The combined expenditure in just the Emfuleni FBTs on the 5 products amounts to R53.7 million per month.

Assuming that unemployed poor residents could be assisted to form co-operatives or enterprises to produce all the mealie meal, bread, meat/chicken, vegetables and washing powder consumed in the Emfuleni FBTs coupled to the fact that 30% of the turnover would be in income to members/workers, the injection into the townships (where 97.4% of the poor reside) would be R16.1 million per month (R193.3 million per year). The impact of the production of these products in terms of job creation and household income is portrayed in Table 9.2 below.

TABLE 9.2 IMPACT OF AN INWARD INDUSTRIALISATION PROCESS: EMFULENI FBTS (2003)

Product	Number of jobs	Monthly income
Maize meal	5,150	R 3.1 million
Bread	6,350	R 3.8 million
Washing powder	2,850	R 1.7 million
Vegetables	3,650	R 2.2 million
Meat	8,850	R 5.3 million

Total	26,850	R16.1 million
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- Source: Slabbert 2003.

This means that at an average income of R600 per month, 26,850 unemployed poor persons could be assisted in the townships of Emfuleni (which is 20.2% of the total unemployed poor population).

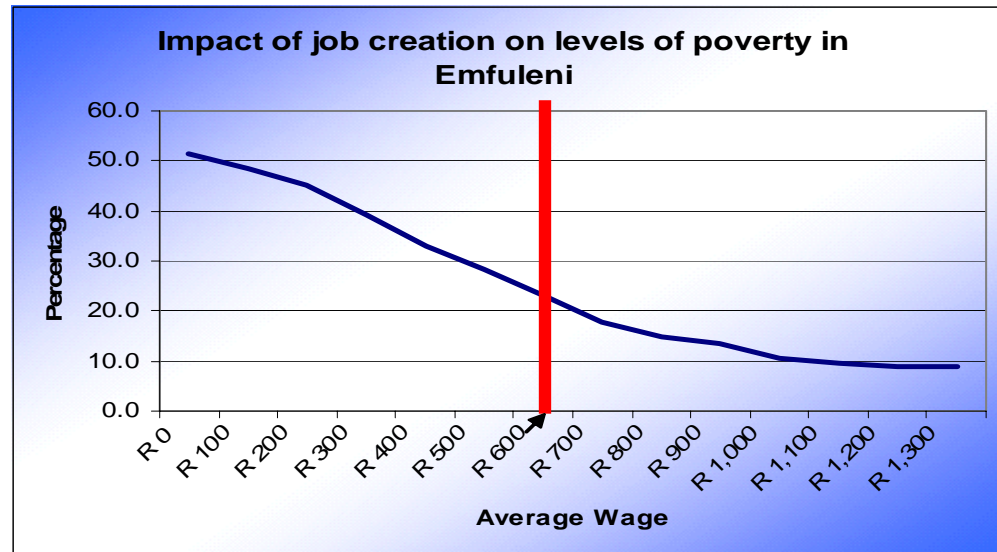
In Section 5.4 an estimate of the number of unemployed poor persons with different skills in Emfuleni's FBTs is shown. There are an estimated 8,912 persons currently with skills in metal work and welding. There are also 19,843 unemployed poor persons who would like to be involved in metal work and welding activities. There are an estimated 21,982 persons with skills in gardening/farming; 20,794 in sewing; 23,746 in catering. If the unemployed poor persons who desire to be involved in a certain field (with relevant skills) could be assisted by means of co-operatives to produce products in the fields in which they have some skills, it would have a substantial impact on job creation and poverty alleviation in Emfuleni.

9.4.2 Impact of job creation on poverty levels

Assuming that jobs for all unemployed poor persons in Emfuleni could be created by the formal regeneration projects, an IIP, or individual employment opportunities such as domestic workers, welders, gardeners, textile workers and the like, at an average income of R600 per month, the impact on Emfuleni will be that the headcount index will be reduced from 0.51 to 0.23 and the poverty gap index from 0.46 to 0.26 as per the model discussed in Section 3.4. This implies that the percentage of households below their individual poverty lines would be reduced from the present 51% to only 23% and the average shortfall in income of the poor households would be reduced from 46% to 26% (without taking the multiplier effect into account).

The impact of job creation at different income levels on the level of poverty in Emfuleni is illustrated in Figure 9.2. At a level of R600 per unemployed person, the percentage of households below their individual poverty lines could be reduced to 23%. If all the unemployed poor could receive incomes of R1,000 per month, the poverty rate would decrease to about 10.5%.

FIGURE 9.2 IMPACT OF JOB CREATION ON LEVELS OF POVERTY IN EMFULENI



- Source: calculated from data by Slabbert 2003.

9.5 Conclusion

The projections and estimates made in the previous chapter were based on ambitious assumptions that at least the Inland Waterfront Project and the stimulation of the manufacturing sector would be a high priority for the ELM. However, a strategic review and analysis of the ELM's approach towards Local Economic Development (LED) showed that there is a lack of enthusiasm and commitment on the side of the ELM. Local Economic Development is seemingly not understood properly and therefore not taken too seriously. Taking into account Emfuleni's financial constraints, it is clear that Emfuleni on its own will not meet the sustainability challenge, and it will become less sustainable in the future. It will therefore be in the interest of the local community to explore Public Private Partnerships (PPPs) and to seek solutions for the sustainability of the economy. It is proposed that ELM seeks to revive the VERB initiative in the region.

Together with the large industries, ELM should seek support to bring the Inland Waterfront project and the stimulation of the Manufacturing sector towards an implementation phase. In addition to these projects, an Inward Industrialisation Process where certain products consumed in the local community are produced locally, should be further investigated and exploited. The preliminary analysis of

the products consumed in the townships shows that a large number of jobs could be created by producing these products. Establishing co-operatives to produce these products will be less capital-intensive and will therefore require less capital compared to, for example, an IDZ. Taking into account Emfuleni's financial constraints, this may be a more appropriate route to take towards sustainability for the Emfuleni economy.

The analysis of the skills of the unemployed poor revealed that there are vast pools of labour with certain skills in Emfuleni, for example metal workers. The production of downstream steel products, making use of the unemployed pool of labour with appropriate skills, should be further investigated. An in-depth study of possible steel products that can be produced in the region still needs to be made. An investigation into the formation of manufacturing co-operatives where the unemployed poor can be absorbed should form part of the study mentioned.

An Inward Industrialisation Process will undoubtedly have a major impact on employment creation and poverty alleviation in Emfuleni. This process should be initiated without neglecting the further development of the more formal projects. All possible ways should be explored to put Emfuleni on the sustainability track. Although an IIP and a programme stimulating employment for the unskilled poor as gardeners, domestic workers and the like, would not necessarily have a great effect on the GGP of Emfuleni, it could have a great impact on poverty.

If jobs for all the unemployed poor (estimated at 132,622 in 2005 and 195,556 in 2015 without implementation of the regeneration projects) could be created at a minimum wage of R600 per month, it would decrease the headcount index of households from 0.51 to 0.23 and the poverty gap index from 0.46 to 0.26. With an average monthly income of R1,000 the poverty rate would decrease to about 10.5%. It is therefore evident that even with relatively low monthly wages poverty could be alleviated.