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# Introduction

## 1.1 Prologue

The task for local government in South Africa requires a radical change in past outlooks and policy formulation processes. Until the last years of apartheid, local government in South Africa was not strongly concerned with issues of economic development and even less so with the question of poverty or the sustainability of communities. New local government in South Africa needs to be innovative in promoting both the economic and social development of localities, including poverty alleviation (Department of Constitutional Affairs 1998).

Both international and national experiences suggest that there are relatively few instances in the developing world of explicit local economic development interventions which are geared towards poverty alleviation or improving the sustainability of households and communities (Zaaijer & Sara 1993; Rogerson 1995). This international experience is sadly confirmed by the overall conclusion of a study of ten local municipalities within eight provinces of South Africa (Department of Constitutional Affairs 1998). From this study it could be concluded that at local government level there were few functioning programmes or interventions which were directly targeted at poor communities. Indeed, the essential policy direction appeared to be relying on market forces to allow the benefits of trickle-down to poor communities.

## 1.2 The research problem

The population residing in Emfuleni was estimated at 658,422 for the year 2001, which was about 7.5% of the Gauteng population (Stats SA 2003a).

Population growth in the absence of substantial economic growth poses a serious threat to the Emfuleni society in general.

South Africa's manufacturing sector has undergone a profound restructuring since the election of the first democratic government in 1994. As part of a new trade regime and with a new industrial policy aimed at catalysing and promoting higher levels of competitiveness through supply-side support measures, manufacturing firms had to respond to the global manufacturing system. The socio-economic and physical effects of this restructuring have been felt in the country's manufacturing centres, especially in the Vaal region which is formed by Emfuleni and Metsimaholo Municipal Areas (Bloch & Dorfling 2000:4).

The market-oriented economic policy transformation implemented in South Africa towards the end of the 1990s had serious consequences for the steel industries, which plays a critical role in Emfuleni's manufacturing sector (Bloch & Dorfling 2000:4).

The turbulence in steel markets globally resulted in restructuring operations in the steel industry towards the end of the 1990s. These restructuring operations impacted negatively on the Emfuleni economy in terms of job and income losses. As a result of this, both the unemployment and poverty rates increased substantially in Emfuleni during the 1990s. In the former black townships of Emfuleni, where about 70% of Emfuleni's population resides, the unemployment rate (expanded definition) increased from 35.0% in 1991 to 54.5% in 2000 (Slabbert & Slabbert 2002b:8). The percentage of poor households in the former black townships of Emfuleni increased from 30% in 1991 to 53% in the year 2000 (Slabbert & Slabbert 2002b:18). These trends give an indication of the non-sustainability of the Emfuleni economy.

The failure of the Kriem Financial Services Scheme and Equilibrium/Futura International Investment Scheme in 2002 added to this negative trend. In an effort to curb the downward trend in the local economy, Emfuleni Local Municipality and the Vaal Economic Regeneration Board (VERB) proposed several developmental projects that may enhance the sustainability of the

local economy. The question however remains: *how sustainable will the Emfuleni economy be in the years to come, taking into account the negative impacts, the population growth and the downward trend in manufacturing activities experienced by Emfuleni since the beginning of the 1990s?*

### 1.3 Objective of the study

The objective of the study is to measure the sustainability of the Emfuleni economy in terms of its potential to generate income and employment opportunities (reduce unemployment) that will result in the alleviation of poverty, taking into account the status of the economy before and after the recent (positive and negative) developments and proposals.

This study endeavours to find answers for the following questions:

- Assuming that no intervention in the economy takes place, what will be the state of affairs and trends in the Emfuleni economy towards the year 2015?
- Taking into account the failure or collapse of the Kriem Financial Services Scheme and the Equilibrium/Futura International Investment Scheme, what will be the impact thereof on the local economy towards the year 2015?
- Assuming that the proposed projects to intervene in the local economy materialise, what will be the impact of these projects on the state of affairs and trends in the Emfuleni economy towards the year 2015?
- How should Local Economic Development (LED) in Emfuleni be approached to address the lack of sustainability in the economy?

## 1.4 Hypothesis

Taking into account the state of the Emfuleni economy, trends in the economy, the impact of negative factors and proposed (positive) projects, the Emfuleni economy will still not be sustainable. Poverty and unemployment will still be on the increase. More serious intervention measures will be required to reach a state of sustainability in the Emfuleni economy.

## 1.5 Research methodology

Sustainability for the purpose of this thesis is defined as *the ability of a local economy to provide employment and income generating opportunities for the local population to such a degree that the extent of poverty is reduced over a period of time.*

In a sustainable economy, poverty will be reduced over a period of time. The degree of sustainability will be determined by the growth rate at which the percentage, as well as the number of households living in poverty, is reduced over a period of time. In a non-sustainable economy, poverty will increase over a period of time. The degree of non-sustainability will be determined by the growth rate at which the percentage, as well as the number of households living in poverty, was increased over a period of time.

To measure the sustainability of the Emfuleni economy, the *status quo* of poverty in the area was measured at a specific point in time (2003). Trends in the headcount index (extent of poverty) and poverty gap (depth of poverty) were determined by comparing the 2003 analysis with earlier (1991, 1994 & 1999) studies of the same area.

The local economy was analysed to determine the *status quo* as well as growth trends in the Gross Geographical Product (GDP), labour force and population. A sectoral analysis, as well as an input-output analysis of the local economy, was used to determine the impact of development projects (positive) and negative factors on household income and employment in Emfuleni. The change in household income was related to the extent and

depth of poverty by means of a model developed by the candidate for measuring such impacts.

The study on the sustainability of the Emfuleni economy was conducted in four phases:

Phase 1 of the study provides a theoretical basis for:

- Measuring poverty at micro-level. This part of the study gives an overview of poverty research internationally and nationally, emphasising the move from a macro-analysis towards a micro-analysis of poverty.
- Measuring the extent and depth of poverty in Emfuleni. The methods used for conducting a micro-analysis of poverty in Emfuleni are discussed.
- The input-output model as a tool to measure the impact of development projects (positive) and negative factors on employment and household income in Emfuleni.
- Measuring the impact of a change in household income on the extent and depth of poverty by means of a model developed by the candidate.

In Phase 2 the *status quo* and trends in terms of Emfuleni's population (numbers and growth), the workforce (employment and unemployment), poverty and the structure of the economy is determined. This part of the study entails the following:

- An analysis of the population of Emfuleni: Areas of residence; Growth and growth-trends; Household size; Dependency ratios and changes in the dependency ratios; Home ownership; Literacy. Data obtained from several Household Surveys (1991, 1994, 1999, 2003) will be used, as well as data available from the 2001 Census.

- An analysis of the labour force of Emfuleni: Formal employment; Unemployment and trends in unemployment; Profile of employed and unemployed; Remuneration per sector of the economy; Sources of household income and Expenditure profiles. Data obtained from several Household Surveys (1991, 1994, 1999, 2003) will be used, as well as data available from the 2001 Census.
  
- An analysis of poverty in Emfuleni: Headcount index and trends in the headcount index; Poverty gap analyses; Profiles of the poor; Employment preferences of the poor unemployed. Data obtained from four Household Surveys (1991, 1994, 1999 & 2003) will be used.
  
- Structural composition of the economy: GGP contribution of the economic sectors; Industrial activities; Regional contribution of the Emfuleni economy; Growth-trends; Functional specialisation. Mostly statistics by Wharton Economic Forecasting Associates (WEFA 1999) are used.

In Phase 3 of the study, the impact of change on the level of employment, income, poverty and economic growth in the sectors of the economy is measured. The input-output model for the Vaal economy is used to measure the impact of change on the local economy in terms of employment and household income. The model developed by the candidate specifically for this thesis, is used to measure the impact of a change in household income on the level of poverty (headcount index) and the depth of poverty (poverty gap). This phase entails the following:

- An analysis of the positive and negative impacts of changes in the economy on the levels of employment, unemployment, income, poverty and economic growth in Emfuleni.
  
- Projections as to unemployment, poverty and the GGP growth of the Emfuleni economy. Taking into account the impact of the proposed projects, the extent in which poverty decreases or

increases over a period of time will determine the sustainability or non-sustainability of the Emfuleni economy.

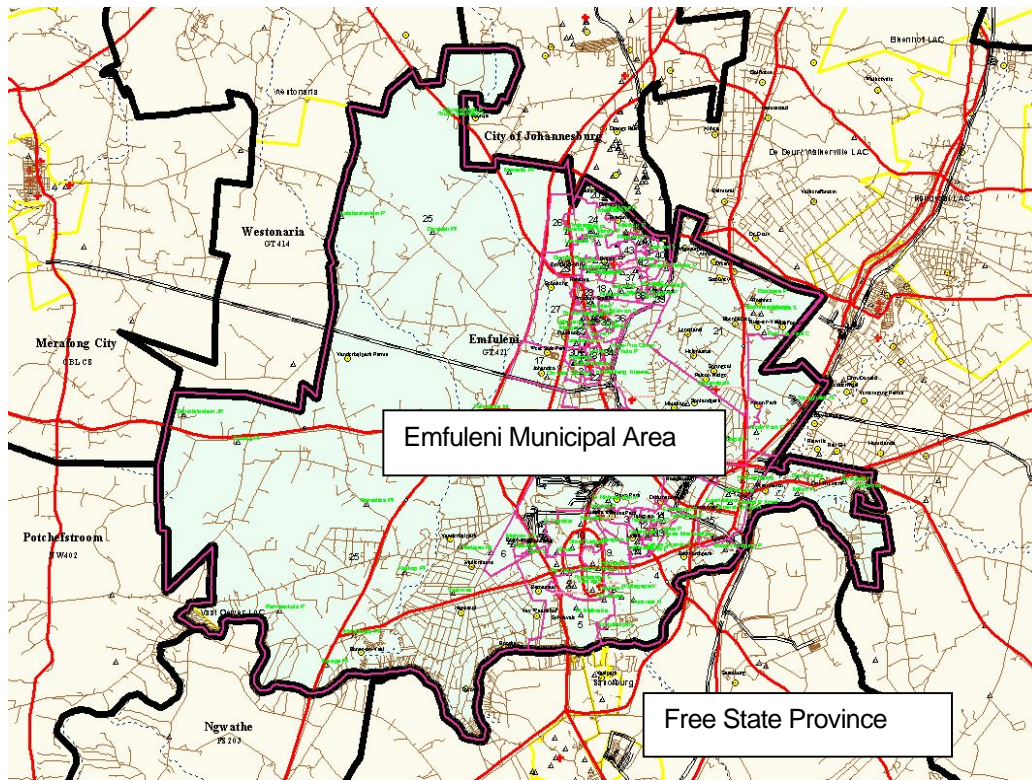
Phase 4 of the study entails a discussion of Emfuleni's Local Economic Development (LED) strategy and how it can be adapted towards an inward industrialization process to enhance sustainability in the Emfuleni economy. Several LED strategies are discussed and an evaluation is given of how these strategies are implemented in Emfuleni. This phase entails the following:

- A discussion of common LED strategies, and an evaluation of Emfuleni's LED approach and initiatives.
- A proposal for altering Emfuleni's LED strategy to attain economic sustainability, with special reference to the initiation of an Inward Industrialisation Process.
- The impact of job creation on poverty levels in Emfuleni.

## 1.6 Geographical area of the study

Emfuleni Municipality, as indicated in Figure 1.1, is located in the southern part of the Gauteng province.

FIGURE 1.1 MAP OF THE EMFULENI MUNICIPAL AREA



- Source: Municipal Demarcation Board 2001.

Together with Lesedi and Midvaal municipalities, it forms the Sedibeng district municipality in the southern part of the Gauteng province. Emfuleni comprises the following suburbs and areas: Boipatong, Boitumelo, Bophelong, Evaton, Loch Vaal and North Vaal rural areas, Sebokeng, Sharpeville, Tshepiso, Vaal Oewer, Vanderbijlpark and suburbs, Vereeniging and suburbs.

## 1.7 Historical development of the area

Unlike the towns of the Witwatersrand which owe their development to the discovery of gold, the towns that now form Emfuleni owe their establishment to the discovery of coal deposits in the region.



In 1878, George William Stow discovered deposits of coal, extending 100 kilometres north of Vereeniging and 32 kilometres south, across the Vaal River, totalling an area of approximately 500 square kilometres. At the current rate of mining, it is expected that these deposits will only be exhausted in 400 years time. At the request of Stow, Senator Samuel Marks (a millionaire entrepreneur), Isaac Lewis and Stow formed a company, known as 'De Zuid Afrikaansche en Oranje Vrijstaatsche Kolen en Mineralen Mijn Vereeniging'. They purchased some coal bearing farms in 1880, and started to operate coal mines in the area (Urban Econ 1998:31).

By 1882, there was a large enough population and sufficient development in the area of the coal mines to justify the establishment of a town. The town Vereeniging (after the last word in the company's title) was established in 1889 (Urban Econ 1998:31).

The discovery of gold in the Witwatersrand in 1888, and the accompanied increase in mining and commercial activities, as well as the increase in population, resulted in an increased demand for coal and steel. This placed a greater significance on the coal mines at Vereeniging. The first South African steel company to melt scrap metals, the Union Steel Corporation of South Africa (USCO), was established by Samuel Marks and Horace Write in 1911, making Vereeniging South Africa's major centre for steel and engineering industries (Urban Econ 1998:31).

The next major impact on the area was experienced during the Second World War. South Africa's contribution to the Allied Forces resulted in a great demand for flat steel products. In 1941, the management team of the Iron and Steel Corporation of South Africa (IsCOR) decided to erect a new iron and steel works 16 kilometres west of Vereeniging, which was completed in 1943. A large number of people were employed and provision had to be made to house them. This led to the development of the town of Vanderbijlpark. Full municipal status was granted to Vanderbijlpark in 1952 (Urban Econ 1998:31).

Economic development associated with coal mining and the iron and steel

industries originally dictated the urban development pattern in the area. The spatial structure is characterised by a complex of small- to medium-sized urban areas surrounded by a comparatively large agricultural hinterland. These urban areas are linked by well-developed road and rail infrastructures which are, in turn, interlinked with the national roads infrastructure such as the N1 and R53 freeways, and provide very good access to the large metropolitan areas such as the Witwatersrand and the East Rand. The rail service provides commuter, freight and long-distance passenger services (Urban Econ 1998:31, 32).

As a result of past (apartheid) policies, urban and economic development is manifested in a geographically dualistic manner. The spatial economy is characterised by areas of economic activity closely surrounded by medium- to high-income areas, each with comparatively adequate urban facilities and economic centres. Low-income areas are located on these urban fringes and, in some cases, isolated in rural areas where limited or no economic development exists (Bloch & Dorfling 2000:26).

The low-income areas are economically almost totally dependent on the economic activities in the medium- and high-income areas. It is not only the workplaces that are located in the high- and medium-income areas, but also the trade centres. Between 80 and 90 percent of groceries and clothing are bought in the middle- and high-income areas (Slabbert *et al.* 1994b:19, 20). As a result, there is a high frequency of commuting between the low-income areas and the high-income areas. There is also a high frequency of commuting between Vanderbijlpark and Vereeniging. People commute daily between the different centres for work and trade. A well developed road and transport system therefore exists in Emfuleni, linking the areas of economic activity with its sources of labour, inputs and markets (Bloch & Dorfling 2000:26).

## 1.8 Layout of the study

The thesis is divided into the following sections:

Chapter 1 (*Introduction*) describes the research problem, the objective of the study, the hypothesis and the research methodology, as well as the geographical area and historical background of the study area.

Chapter 2 (*Theoretical background to the study*) gives an overview of poverty research internationally and nationally and details the shift in emphasis from a macro-analysis of poverty towards a micro-analysis of poverty.

Chapter 3 (*Methodology for measuring the impact of changes in the economy on poverty*) describes the methods used for measuring poverty at a micro-level; the methods used for measuring the impact of change on the level of employment and income in the local economy; and the methodology developed to measure the impact of a change in the level of income on the level of poverty in the area.

Chapter 4 (*Emfuleni population and labour force*) gives a profile of the local population in terms of size, growth patterns, household size, dependency ratio, home ownership, literacy, unemployment, employment, sectors of employment, occupational profile, remuneration, income and expenditure patterns and sources of household income.

Chapter 5 (*An analysis of poverty in Emfuleni*) describes poverty in terms of the headcount index and the poverty gap. The depth of poverty in Emfuleni is also discussed. A profile of the poor in the area is portrayed. The needs and preferences of this group of people, as well as their accessibility to the various sectors of the local economy, are discussed.

Chapter 6 (*The Emfuleni economy*) offers an analysis of all sectors of the Emfuleni economy, including GGP contribution and a more detailed description of the existing industrial activities. Trends over the last 10 years are analysed. The Emfuleni economy is also analysed in terms of its role in the Gauteng province.

Chapter 7 (*A sectoral analysis of the Emfuleni economy and identification of key economic sectors*) presents an input output analysis of the Vaal economy. The income and employment multipliers of the different economic sectors are determined in order to identify the key sectors of the economy.

Chapter 8 (*The impact of changes in the economy on existing trends in terms of employment and unemployment, income, poverty and economic growth in Emfuleni*) projects the population, employment and unemployment, poverty and economic growth in Emfuleni until the year 2015. The impact of several possible (positive) projects as well as negative events (like the failures of the Krion Financial Services Scheme and the Equilibrium/Futura International Investment Scheme in 2002) on these projected levels of employment and unemployment, income, poverty and economic growth is investigated and portrayed. The sustainability of the Emfuleni economy is thus determined.

Chapter 9 (*An adjustment of Emfuleni's Local Economic Development Strategy towards economic sustainability*) discusses Emfuleni's approach to Local Economic Development and makes proposals of how it can be adjusted towards an inward industrialisation process (IIP) to enhance economic sustainability.

Chapter 10 (*Summary and Conclusion*) summarises and concludes the study, highlighting the recommendations for enhancing economic sustainability in Emfuleni.