



**LOCAL ECONOMIC DEVELOPMENT AS A POVERTY ALLEVIATION  
TOOL: A CASE STUDY ON THE URBAN RENEWAL PROGRAM IN  
KWAMASHU DURBAN.**

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## **ABSTRACT**

The study sought to establish the impact of LED strategies employed by the Inanda Ntuzuma KwaMashu Area Based Management program (INK ABM) in alleviating poverty in KwaMashu. The objectives of the study were: to identify aspects of poverty that has been reduced in KwaMashu; assess the extent poverty alleviation is influenced by demographic characteristics namely age sex and income in KwaMashu; to compare levels of poverty before and after the INK ABM in KwaMashu; to identify the positive and negative impacts of the LED strategies within the INK ABM in KwaMashu; to establish the effectiveness of the structures put in place in the INK ABM project in KwaMashu in achieving the ultimate goal of poverty alleviation, and to use the results to recommend further initiatives. The methodology used in the study to assess' impact was Poverty Social and Impact Assessment.

The study revealed that LED strategies have had a significant impact in improving infrastructure and service delivery at KwaMashu town center and KwaMashu in general. LED strategies have had marginal impact in improving the income, assets indicators, human capabilities, market share and employment creation of SME's and residents in KwaMashu. Moreover the study revealed that there is a strong positive correlation between education levels and success of entrepreneurs. Entrepreneurs who have better skills can leverage themselves to LED strategies than those with poor skills. LED has had a marginal impact on poverty alleviation due a myriad of factors which reinforce and interact with each other thereby trapping entrepreneurs and residents in poverty. A major finding is that LED strategies in KwaMashu do not target all the segments of the poor in a meaningful way. As such the study suggests a new LED agenda in KwaMashu which is: holistic, targets all the segments of the poor, fosters skills development and consists of various investment packages which would ensure that poverty in its multidimensionality is alleviated. The study contributes to knowledge by developing a model LED cycle and the concept of clinical LED which can assist in translating policy into meaningful practice so that LED has a high impact on alleviating poverty.

**DECLARATION**

I declare that this thesis is my own original work .Any work done by other persons has been properly acknowledged in the text. This dissertation has not been submitted for any other degree or examination at any other university.

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## Acronyms

|                  |   |
|------------------|---|
| ABM              | Area Based Management Program               |
| ADB              | Asian Development Bank                      |
| CBD              | Central Business District                   |
| CBO              | Community Based Organization                |
| CDI              | City Development Index                      |
| CED              | Community Economic Development              |
| DPLG             | Department of Local Government              |
| EDA              | Economic Development Agency                 |
| EU               | European Union                              |
| GDP              | Gross Domestic Product                      |
| HDI              | Human Development Index                     |
| IDB              | Inter American Development Bank             |
| ILO              | International labor Organization            |
| IMF              | International Monetary Organization         |
| INK              | Inanda, Ntuzuma and KwaMashu                |
| KMTC             | KwaMashu Town Center                        |
| LED              | Local Economic Development                  |
| LEDA             | Local Economic Development Agency           |
| MDG              | Millennium Development Goals                |
| NGO              | Non Governmental Program                    |
| PSIA             | Poverty Social Impact Assessment            |
| RDP              | Reconstruction and Development Program      |
| RSA              | Republic Of South Africa                    |
| SME              | Small Micro to Medium Enterprises           |
| UN               | United Nations                              |
| UNCHS/UN HABITAT | United Nations Center For Human Settlements |
| UNDP             | United Nations Development Program          |
| URP              | Urban Renewal Program                       |
| USA              | United States Of America                    |

# CHAPTER 1: THE RESEARCH PROBLEM

## 1.0 BACKGROUND AND PROBLEM STATEMENT

Local economic development initiatives have been put forward as a panacea to poverty reduction and economic empowerment of communities in developing countries. Economic development has evolved from being purely measured in economic terms such as Gross Domestic Product, which did not necessarily measure distribution of income and wellbeing. Development theories have evolved to become theories with a 'human face' (UNDP 2000) wherein development is not purely economic but aspects such as level of literacy, gender based development, quality of water and poverty levels are incorporated. Local Economic Development (LED) integrates the economic measures and humane aspects of development but goes on further to focus on development at a micro level. Local economic development is a conscious process wherein small communities assisted by better developed institutions work toward improving standards of social and economic life (Jeppe 1980). Thus in essence LED facilitates partnered development between the local government, community, private sector, NGO's and any other stakeholders.

The above partnered development has been explored elsewhere in eco-tourism projects in Siyakobvu Zimbabwe (Metcalf 1993) and in rural Indonesia where the national government fostered clustered based industries. The results of such initiatives have been mixed (China Economic Review February 2007). In developing countries where LED has been going on for a number of years, it is difficult to identify stunning success stories; the collection of cases studies in (Aghón et al. 2001 cited by Meyer –Stamer 2003 ) gives little evidence of the outcome and impact of the initiatives described. Even in developed countries there are not that many LED success stories (Meyer –Stamer 2003). One cannot help but wonder: "Is the popularity of LED perhaps more due to desperation than to a convincing track record?"(Meyer –Stamer 2003 pg6). In South Africa, LED is a mandatory task of local government since it is viewed as a way of addressing imbalances brought about by the legacy of apartheid. Nevertheless it appears that, there is no clear concept and no consistent pattern of implementation of LED (Tomlinson 2003). In South Africa LED is encouraged by the national government through the Urban Renewal Program (URP) which seeks to kick-start development in previously disadvantaged areas such as KwaMashu.

Amongst its problems include: a youthful population with high unemployment, low levels of education, inadequate and poorly maintained infrastructure, high levels of poverty, crime, inadequate criminal justice capacity, poor transport systems environmental degradation and institutional capacity constrains (URP 2001). The city of Durban through its Economic Development has chosen to implement the urban renewal program by establishing the Inanda Ntuzuma and KwaMashu Area Based Management unit (INK ABM) which implements the program.

The INK ABM was established in 2001 by the Urban Renewal Program (URP) which targeted areas of greatest need .The URP aimed at conducting a sustained campaign against urban poverty (URP 2001). Though announced in early 2001, it is only recently that the URP in INK has gained real momentum. The eThekweni Municipality has chosen INK as one of its "learning areas" within the programme of Area Based Management and Development (ABMD) which was implemented in 2003 (Hindson 2003; eThekweni Municipality Report 2006. Currently the INK ABM is conceived as a system that complements rather than replaces line function departments, with a focus on mobilisation of actors, resources and co-ordination to secure integrated and sustainable development at the local level (Hindson 2003). The Area Based Management Programme is an institutional model for delivery and a means of bringing government to the people.

Despite Durban and other South African Cities engaging in LED initiatives for nearly a decade very few have assessed the impact of LED strategies on poverty alleviation (Nel and Rogerson 2005). Only the financial and accounting systems of the LED initiatives have been rigorously appraised. Meyer-Stammer (2003) argues that there is the fear that systematic impact assessments might paint a bleak picture, or is it a fact that LED makes little difference? It is therefore the aim of this research to establish how effective the LED strategies employed by the INK ABM in reducing poverty in KwaMashu.

## **1.1 OBJECTIVES**

The overall objective of this thesis is to measure the level of poverty reduction attributable to the LED Strategies employed by the Inanda Ntuzuma KwaMashu Area Based Management Program (INK ABM) in KwaMashu. Specific objectives are listed below.

- i. To identify aspects of poverty that has been reduced in KwaMashu.
- ii. To assess the extent to which poverty alleviation is influenced by income and demographic characteristics namely age and sex in KwaMashu.
- iii. To compare levels of poverty before and after the INK ABM in KwaMashu using indices such as Human Development Index(HDI) and City Development Index(CDI)
- iv. To identify the positive and negative impacts of the LED strategies within the INK ABM in KwaMashu.
- v. To establish the effectiveness of the structures put in place in the INK ABM project in KwaMashu in achieving the ultimate goal of poverty alleviation.
- vi. To use the results to recommend further initiatives.

## **1.2 RESEARCH QUESTIONS**

The overarching research question is: to what extent has LED led to poverty alleviation in KwaMashu .Specific research questions are listed below

- i. What are the current LED strategies employed in KwaMashu?
- ii. To what extent is the current LED strategy pro-poor?
- iii. What were the levels of poverty before the INK ABM and after the INK ABM?
- iv. What are the factors that affect LED as a poverty alleviation tool?

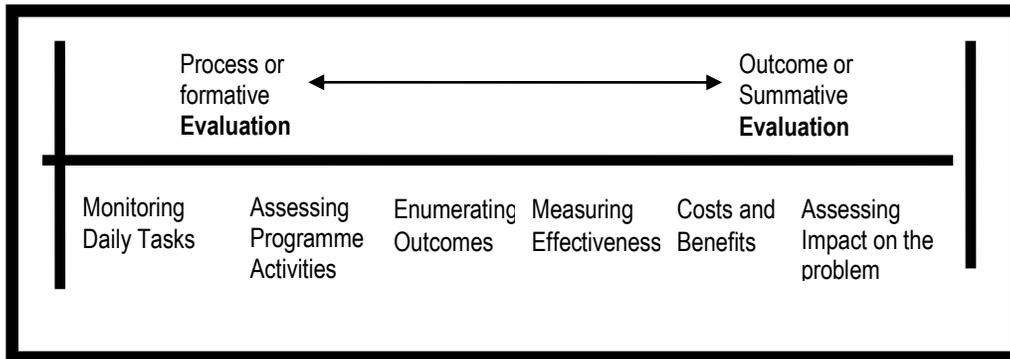
## **1.3 WORKING HYPOTHESIS**

The implementation of LED strategies within the INK ABM has not led to a reduction of poverty in KwaMashu.

## **1.4 RESEARCH LOG FRAME**

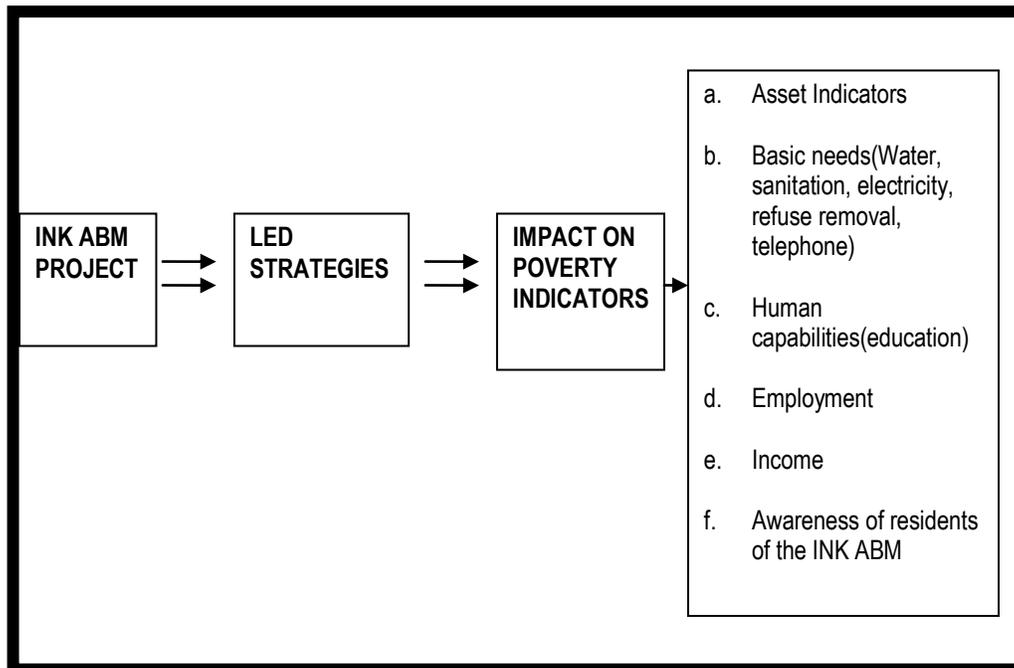
The research sought to, assess the impact of LED strategies on poverty alleviation in KwaMashu. It uses the PSIA as a method of evaluating the changes in wellbeing as a result of the INK ABM in KwaMashu. Evaluation is the “systematic application of social research procedures in assessing the conceptualization and design, implementation, and utility of social intervention programs (Rossi and Freeman 1985: p. 19 cited by Bartik and Bingham 1997). Evaluation of LED takes place in a continuum from process to assessing impact of the problem; this is summarised in figure 1 below while the framework for analysis is summarised in figure 2 below .

**Figure 1: LED Evaluation Continuum**



Source: Bartik and Bingham (1997)

**Figure 2: Framework for Impact Assessment**



Source: Author's Construct

The research determined whether the initial problem of poverty has been reduced by the LED strategies being employed by the INK ABM in KwaMashu, by using the one group pre-test and post test approach. With this approach the status of SMES and households in KwaMashu is examined before the inception of the INK ABM and during the implementation of the program. This approach is summarized in the log frame shown on the next page.

**Table 1: Research log frame**

| Objectives   | Data Sources  | Tools and Techniques  | Indicators  | Data analysis  |
|--|---|---|---|--|
| To identify aspects of poverty that has been reduced in KwaMashu   | Households, SME's, line staff INK ABM ,LED professionals and Secondary data   | Questionnaires, key informant interviews and mapping                  | Asset, basic needs Human development indicators, City Development Index (CDI), employment and income indicators.    | Data entered into excel worksheets, compare and analyze trends, profiling and grouping using the pivot table function in Microsoft excel |
| To asses the extent poverty alleviation is influenced by demographic characteristics namely age sex and income in KwaMashu.                              | Households, SME's line staff INK ABM and eThekwini municipality, LED professionals census data, INK business plans and other secondary data | Questionnaires, key informant interviews and secondary data           | Asset, basic needs employment and income indicators, human development indicators.                                  |  |
| To compare levels of poverty before and after the INK ABM in KwaMashu using indices such as Human Development Index(HDI) and City Development Index(CDI) | Households, SME's, line staff INK ABM and eThekwini municipality, professionals and census data   | Questionnaires, key informant interviews , mapping and secondary data | Asset, basic needs Human development indicators, City Development Index (CDI), employment and income indicators.    |  |
| To identify the positive and negative impacts of the LED strategies within the INK ABM in KwaMashu.  | Households, SME's, line staff INK ABM , eThekwini municipality and LED professionals  | Questionnaires, key informant interviews, and secondary data          | Asset, basic needs, Human Development Indicators, City Development Index (CDI), employment and income indicators.   |  |
| To establish the effectiveness of the structures put in place in the INK ABM project in KwaMashu in achieving the ultimate goal of poverty alleviation   | Households, SME's, line staff INK ABM ,and LED professionals  | Questionnaires and key informant interviews                           | Awareness, milestones and targets set by the INK ABM  |  |
| To use the results to recommend current and future LED strategies  | Households, SME's, line staff INK ABM, Led professionals and secondary data   | Questionnaires and key informant interviews                           | , Asset, basic needs, Human Development indicators, City Development Index (CDI), employment and income indicators. |  |

## 1.5 STRUCTURE OF THESIS

**Chapter 1: The Research Problem**-This chapter introduces the research study, aims, objectives, hypothesis and the justification of the research.

**Chapter 2: Conceptual framework**- The conceptual framework outlines a preferred approach to a system of analyzing phenomena (Carman 2004). It is a model of how one is to approach the issues of LED, poverty and poverty alleviation. In this framework key concepts are defined and the theories behind the particular definitions are discussed.

**Chapter 3: International Perspectives on LED and Poverty.**The chapter establishes the previous and current international debates with regards to the LED poverty alleviation nexus. Best practices with regard LED as a poverty alleviation tool are discussed

**Chapter 4: LED in South Africa.**-This chapter explores the current setup of LED in South Africa. It also discusses best practices of LED as poverty alleviation in South Africa.

**Chapter 5 Research methodology**- This section describes the tools and techniques used in this research. The methodology employed is mixed method research which employs both quantitative and qualitative methods of research.

**Chapter 6: Planning, Development and Poverty in KwaMashu**-This chapter provides a historical background The development and poverty a profile and the planning setup in KwaMashu is also discussed.

**Chapter 7: LED Strategies in KwaMashu**-The chapter gives the background of the Urban Renewal Program (URP) which brought about the establishment of the Inanda Ntuzuma KwaMashu Area Based Management Program (INK ABM).It discusses the LED strategies being employed by the INK ABM/URP in KwaMashu

**Chapter 8: The Impact of LED Strategies on Poverty in KwaMashu-** This chapter highlights the impact, both positive and negative of the LED strategies used in KwaMashu. It establishes the level, the depth, incidence of impact of the various strategies on poverty. The chapter also explains the reason behind the impact.

**Chapter 9: Summary of Results, Recommendations and Conclusions.** This chapter gives a summary of the findings of the research, whether LED is has had a major impact in alleviating poverty. Recommendations on improving LED as a poverty alleviation strategy are also made. Lastly the chapter makes an overall conclusion on the study

## **CHAPTER TWO: CONCEPTUAL FRAMEWORK**

*"We have entered the urban millennium. At their best, cities are engines of growth and incubators of civilization. They are crossroads of ideas, places of great intellectual ferment and innovation...cities can also be places of exploitation, disease, violent crime, unemployment, and extreme poverty...we must do more to make our cities safe and liveable places for all." (Kofi Annan 2000). In this regard LED can be a useful tool if considerable time and care is taken in conceptualising LED*

### **2.0 INTRODUCTION**

This chapter defines and describes the key concepts and approaches used in this thesis. Local Economic Development (LED) and poverty are key concepts within which this study is conceptualized. LED is a concept used to achieve economic growth and poverty alleviation in developing countries. Poverty has various dimensions namely absolute, relative and human poverty within which this study is conceptualized. Poverty alleviation also has various approaches namely: income, basic needs social exclusion, human development and sustainable livelihoods. These approaches assist in determining, the type, extent and dynamics of poverty. In these various approaches to poverty it is established that poverty is multidimensional. Thus poverty can be measured using simple income poverty lines and other complex measures such as Human Development Index (HDI) and City Development Index (CDI) which acknowledge the multi-dimensionality of poverty. These measures assist in determining whether LED is an effective tool in reducing poverty.

### **2.1 LOCAL ECONOMIC DEVELOPMENT**

International experience suggests that LED is a slippery concept which is at times difficult to define (Syret 1995; D'Arcy and Guissani 1996 cited by Meyer Stamer 2003). In South Africa LED has been interpreted in different ways resulting in policy confusion (Rogerson 1997). Nevertheless there is an emerging consensus that, among its core elements LED promotes growing local economies as well as addressing poverty alleviation (Rogerson 1999). Following this line of thought, Jeppe (1980) defines local economic development as a conscious process wherein small

communities assisted by better developed institutions work toward improving standards of social and economic life. Thus in essence LED facilitates partnered development between the local government, community, private sector, NGO's and any other stakeholders. The World Bank 2003 defines local economic development as "local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all the community." A community; it is defined as an area, a city, town, metropolitan areas or sub national region (ibid). Local is defined as any urban area ranging from large cities to small towns and also implies the inclusion of rural areas linked to towns (World Bank 2003). LED can be described as a territorial planning tool employed by local authorities, using local resources to withstand national and global pressures (Pose 2001). LED thus can be defined as:

*"A process in which partnerships between local government, the private sector and the community is established to manage local, and access external, resources that can be used to stimulate the economy of a well defined territory. In its earlier incarnations, the goal of LED was generally restricted to growing the economic and tax base of a location. More recently, in the context of the Millennium Development Goals, a distinction has been made between economic growth as the "immediate goal" and poverty eradication as the "overall goal" of LED" (Hindson and Meyer-Stammer 2007: pg 10)*

In summary LED seeks to promote economic growth and poverty reduction. LED is endogenous, involves partnerships, should be sustainable and seek to improve the quality of life of citizens. Given the nature of LED it is seen as an appropriate process for creating suitable conditions for sustainable employment, small and medium enterprise creation and growth; and for promoting human development, and decent work (Canzanelli 2001; ILO 2001). However there still remains a dilemma of how LED achieves the above. Canzanelli (2001) sets out the parameters which are deemed necessary to achieve poverty reduction and economic growth namely: participation, endogenous resources, and support to vulnerable groups and sustainability. These parameters are briefly described below.

- **Participation-** In order to realize sustainable development at local level, it is necessary that the stakeholders share a mutual vision of the future (Canzanelli 2001). This is

necessary, albeit not a sufficient condition and, is generally lacking in developing countries (ibid). Sharing a mutual strategic vision of development may be one of the most difficult things to achieve and the only way to meet this condition is to commence a long and tortuous dialogue among the local actors which may also be unsuccessful (ibid). The difficulties of succeeding in the elaboration of a mutual shared vision are related to the wideness of the territory concerned (ILO 2001). The territory must be big enough to ensure the presence of a critical mass of resources on which to base a LED intervention, but also small enough to allow a proper bottom-up participatory approach (Canzanelli and Dichter 2001). In essence LED should try to encourage participation even though difficulties may arise.

- **Endogenous resources.** A Local Economic Development approach should be based on the exploitation and development of the local endogenous resources (Canzanelli 2001, Bond 2003). The sustainability of the intervention strongly relies on the positive response to this condition (Canzanelli 2001). Therefore local economic development should be based on local resources. Foreign direct investment is not excluded in this milieu, but it should anyway be directed towards the use of local potentialities (Canzanelli 2001).
- **Support to vulnerable groups.** Local Economic Development practices should be carried out as means to favour social inclusion of the vulnerable groups (Canzanelli 2001). Activities should be based on the broader concept of human development (UNDP 2006). So issues such as the access to economic opportunities, the provision of decent work, the safeguarding of the environmental bio-diversity should be incorporated in a LED program (ILO 2001).
- **Sustainability.** LED should not detract from but rather enhance the economy to achieve the same goals in the future. It embodies the promise of societal evolution towards a more equitable and wealthy world in which the natural environment and our cultural achievements are preserved for generations to come (EDA 2007). LED should therefore seek sustainability financially, socially, institutionally and environmentally. Financial sustainability implies that an LED intervention should be able to cover its own expenses, possibly detaching itself as soon as possible from the funding of the donor agencies which

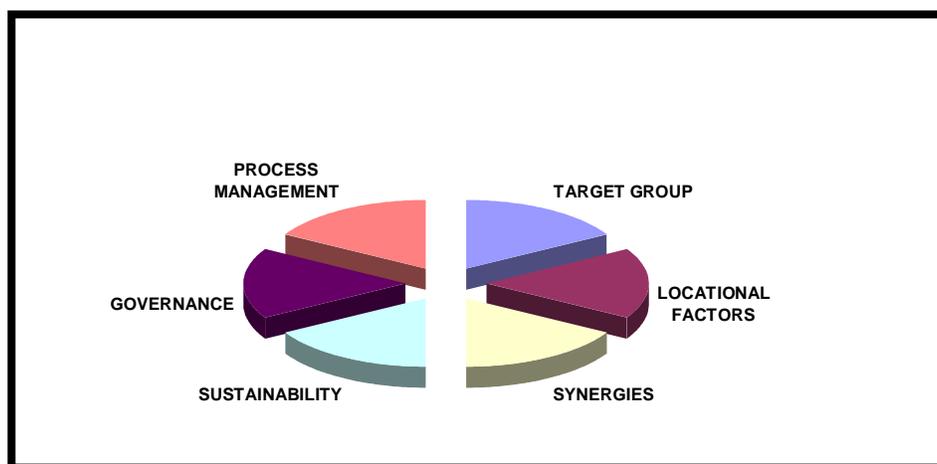
sustained the intervention at the beginning ( Canzanelli 2001) .Social sustainability implies that a shared vision of future development is reached among all the local actors (Canzanelli and Dichter 2001). Institutional sustainability implies that local administrations and authorities are fully committed to support the process and to channel to it all the public initiatives to be implemented in the area (ILO 2001).

From the above discussion it is clear that LED involves participation and social dialogue, it is territory based, entails mobilisation of local resources and competitive advantages, it is endogenous and should be sustainable. LED can therefore be broken down in three to come up with a better understanding as described bellow.

- **Local:** which entails endogenousness or a specific territory (Pose 2001)
- **Economic:** which entails identifying investment opportunities and improving competitiveness (EDA 2007;Meyer-Stamer 2005)
- **Development:** entails improvement in the living conditions or quality of life or a shift from ill-being to well being (Chambers 2006)

Using the above breakdown of LED Meyer Stamer develops a hexagon which identifies the key issues shown in figure 3 below. It consists of six different pies described below:

**Figure 3: Key Issues in LED**



Source: Meyer- Stamer (2005)

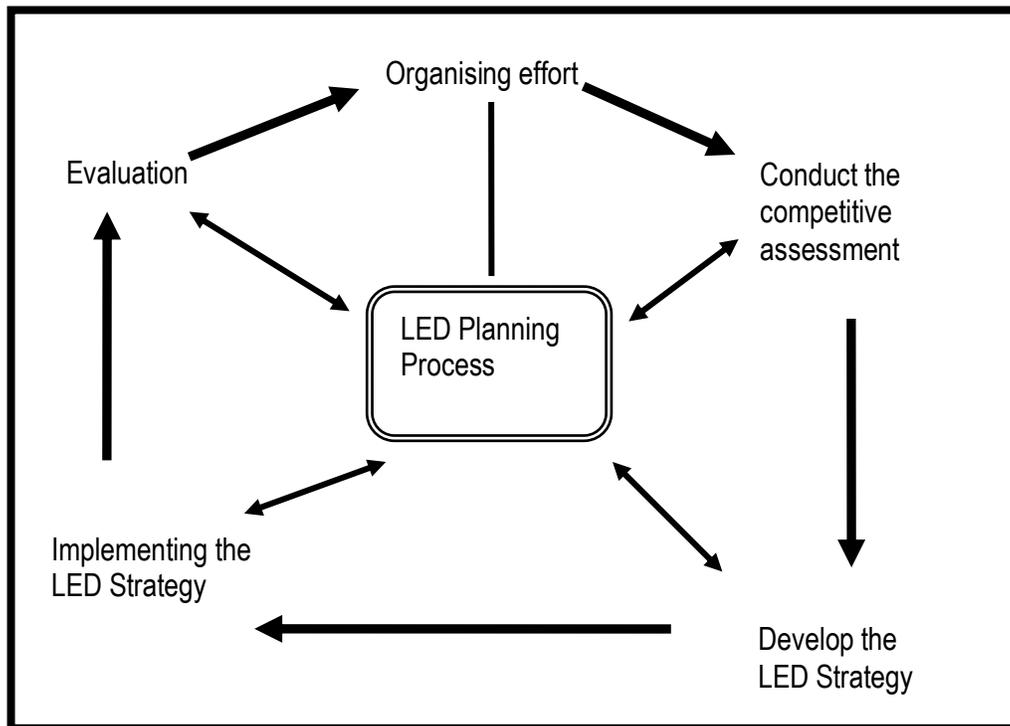
- i. **Target group-** LED targets organisations or companies that are locally based external investors and business start-ups.
- ii. **Locational factors-**these are factors which define attractiveness of a location; they may be tangible for example access to roads, and intangible factors, for example quality of life.
- iii. **Synergies-**this refers to three interrelated and at times competing pies of LED namely: economic promotion, employment creation/poverty alleviation/community development, and urban development .The challenge is to clearly define these otherwise conflicts may arise. Another challenge is to create synergies between the fields such that they are reconnected in a meaningful way (Meyer- Stamer 2005).
- iv. **Sustainable development-** looks at sustainability in economic, social and ecological aspects of development.
- v. **Governance-**this triangle postulate a governance of which is appropriate for LED, it must be based on administrative and regulatory streamlining in the public sector and organisational development in the private sector (Meyer –Stamer 2005).
- vi. **Process management-**means that LED should be based on iterative planning implementation, monitoring and evaluation, benchmarking and reflecting which leads to adjusting and additional planning (Meyer-Stamer 2005).

From the above discussion it is clear that the six components are essential components when planning for an LED strategy.

### 2.1.1 LED Planning Process

LED is an endogenous process therefore the planning for a LED strategy should begin with the local people. The LED process always starts when local people, eventually together with national or even international institutions, join together in discussing how to establish common strategies for achieving determined aims and objectives, generally dealing with employment, fight against poverty and exclusion, improvement of the territorial quality and competitiveness (Canzanelli 2001). The LED planning process should form an integral part of the broader strategic planning process for a region, city, town or rural area (World Bank 2003). The LED planning process has five stages (see figure 4 below).

**Figure 4; LED Strategic Planning Process**



Source; Adapted from World Bank (2003)

From the above figure one can denote that the LED process is a cyclical and iterative process. The LED process is not prescriptive but should be flexible such that it adapts to a certain locality (World Bank 2003). The various stages of the planning process are discussed below.

#### **2.1.1.1 Organising Effort**

Organising effort involves identifying the people, public institutions, businesses, community organisations and other groups with interests in the local economy (World Bank 2003). Canzanelli (2001) defines this initial identification as the initial local forum. The initial local forum is usually headed but not always by the local government of the area. This can be through promoting an Economic Development Department in the local government department. Once the economic development unit has been set up, the various stakeholders have to be managed by identifying the key stakeholders, defining their interests and the best way to involve them (World Bank 2003). These stakeholders may include, the public sector, private sector and community sector. Indeed stakeholders bring benefits which include specialist knowledge, resources, knowledge of the local area and they legitimise the process by being involved (World Bank 2003). Canzanelli

(2001) notes that these stakeholders have various interests and need to be managed tacitly. He goes on to explain that at this stage the stakeholders need to establish a common social ground or what he terms 'social capital'. Social capital is "the ability of people in working together for a common objective and in an organised and voluntary manner, sharing rules and values and being able to subordinate individual interests to collective ones" (ibid). When this common vision is shared a competitive analysis for the area may be done.

### **2.1.1.2 Competitive Assessment**

To develop a LED strategy, the community must be fully informed about their own town or city, their own region and their national economy (World Bank 2003). Information from a competitive assessment is crucial in that it identifies local attributes that hinder or promote LED. A local economy assessment involves collecting strategically important information and then analyzing it strategically (World Bank 2003). The information may include:

- Demographic information: information about the people in the community, what they need and what they are capable of.
- Economic information: This information will provide an understanding of the local economy.
- Investment climate information: This will inform on how the local government treats its business community.
- Hard Infrastructure information: This indicates the status of water, electricity, wastewater provision, transport infrastructure and other physical structures necessary for LED.
- Regional and National information: This involves gathering information on what is happening in other areas that may impact on the community.

When the data is collected a SWOT (strength, weaknesses, opportunities and threats analysis) analysis is undertaken. From the analysis, an area's competitiveness can be defined. This competitiveness in the current economic context does not depend on the antagonism of single companies, but relies on the environmental conditions that allow a certain territory to attract investment or selling its products or services, or facilitating advantageous agreements (Canzanelli

2001). Competitive analysis also takes place at various levels which are the meta, macro, meso and micro level.

At the meta level three issues are of concern; firstly, a social consensus on the guiding economic principle; secondly, a basic pattern of legal, political, economic, and overall social organization that bolsters national innovative, competitive and growth advantages; and thirdly, the willingness and ability to implement a medium- to long-term strategy of competition-oriented development (Esser et al 1996 cited by Canzanelli 2001). The main concern at the macro level is to create the framework for effective competition, a stable macroeconomic framework that ensures undistorted prices and favorable financing terms. The key issue at the micro level is an effective management of technical and organizational learning processes at the firm level (ibid). The meso level is concerned with shaping the specific environment in which firms operate. This is where the state and societal actors on the national, regional, and local level are creating locational advantages (Canzanelli 2001).

With a competitive assessment the local area is able to draw a community profile. This profile sets out possible pointers to developing a LED strategy and possible threats to a strategy (Canzanelli 2001; World Bank 2003). The City of Durban in 1996 undertook a competitive assessment where it identified its coast, beaches, natural environment as its competitive advantage and high poverty and unemployment as its major threats (Maharaj and Ramballi 1998). It is this assessment which is key in coming up with an LED strategy in developing countries.

### **2.1.1.3 Developing the LED Strategy**

Strategy making involves coming up with a holistic approach to LED whilst taking into cognizance the competitive assessment of the local economy (World Bank 2003). Developing a LED strategy involves creating a vision, developing goals and objectives, developing programs and projects to achieve the objectives and documenting the strategy (World Bank 2003; Canzanelli 2001). Creating a vision should involve all the stakeholders and it should focus on the stakeholder's preferred economic future. A strategic vision for the development of a certain territory is the first step the local actors pursue for fixing collective ideas and images, exchanging interests and values, identifying strengths and weaknesses of their territory, and all the necessary issues for the assessment of future coherent actions (Canzanelli 2001). The vision gives a sense of direction

even though it may not be achievable. Examples of LED visions include The City of Johannesburg whose vision is to become a 'World Class African City', Buenos Aires: 'The Environmental Quality of Life City', Seattle: 'Gateway for high-tech to the Pacific Northeast' and Singapore: 'The Most Globally Connected City' in the world. The vision helps in formulating goals and objectives.

Goals point more specifically to the outcomes the community seeks to achieve, whilst objectives are more specific, time bound and measurable (World Bank 2003). For example Singapore's vision is to become globally connected therefore it developed goals such as to invest in telecom infrastructure whose specific objective is to improve access to broadband internet. When the goals and objectives are set programs and projects to achieve them will be set in motion. It is also important to note that the LED strategy has to be documented for everyone to have access (ibid).

#### **2.1.1.4 Implementing the Strategy**

Implementation of LED strategies is driven by plans. When coming up with the plans various factors need to be taken into consideration. These factors include urgent priorities, resources, capacity and anticipated risks which pertain to a certain locality (World Bank 2003). The factors determine the type of LED to be implemented. Implementation of a LED strategy is usually through Private Public Partnerships (PPP's) that are strongly driven by the local authority (Mullin 2002, World Bank 2003). Canzanelli (2001) argues that the successful implementation of an LED strategy depends on formation of an implementing agency which he terms Local Economic Development Agency (LEDA). The creation of a functional structure, or 'Local Economic Development Agency', is likely to contribute to success of LED processes. Such a structure will help establish an identity and visibility for the local development initiative, act as a vehicle for communication between partners, provide the technical skills for developing projects, support entrepreneurs, facilitate coordination of efforts and initiatives and it can have long term objectives, since it is stable, self-sustainable and permanent (Canzanelli 2001). In USA an example of a LEDA is the Economic Development Agency (EDA). International organizations which act as LEDA's include European Union (EU), ILO, UNDP, and OECD. In South Africa LEDA's include The Department of Trade and Industry, and the Economic Development Department (eThekweni Municipality) which together with the EU manages the INK program. The LEDA is also a useful vehicle for monitoring and evaluating LED (World Bank 2003).

### **2.1.1.5 Evaluating LED**

Evaluations can be divided into two categories—process or formative evaluations and outcome, impact, or summative evaluations (Bartik 1997). Process evaluations focus on how a program is delivered while impact evaluations focus on the program's results (ibid). Evaluation is critical in identifying whether the LED has met its objectives or whether it is achieving the desired outcomes (ibid). This may point areas which needs further attention. Evaluation also depends on the type of LED strategies (ibid).

## **2.2. LOCAL ECONOMIC DEVELOPMENT STRATEGIES**

Local economic development consist of three strategies namely, community economic development, locality development planning and enterprise development (Helmsing 2001). Amongst these forms' LED assumes both supply and demand sides. Supply side policies are directed towards businesses through tax incentives and non tax incentives which are either discretionary or non discretionary (Eberts 2005). Demand side policies are aimed at providing an enabling environment for innovation, research and development, Small to Medium Enterprises(SME's) development and entrepreneurial activity. The supply and demand polices have existed and evolved in USA, Canada and Europe since the 1960's and they are classified into three waves (Clarke and Gaile 1998; Friedman and Ross 1990). Currently the world at large is in the fourth wave of LED initiatives (Clarke and Gaile 1998). The fourth wave differs significantly from the other three in that it focuses on integrating the local economy into the global market, developing human capital and increased use of telecommunications (Clarke and Gaile 1998) These waves are summarised in the ( table 2, see next page).

From table 2 it is clear LED has evolved from merely attracting investment to a local area to placing a local area onto a vantage point globally. These stages do not exist in isolation, and they overlap, with a mixture of strategies being employed at one time, depending on the type of pressures being faced by a local economy.

**Table 2 Classification of Local Economic Development Strategies**

| <b>Component</b>          | <b>First Wave<br/>(1960's-early 1980's)</b> | <b>Second Wave<br/>(1980's - mid 1990's)</b>    | <b>Third Wave<br/>(Late 1990s -2000)</b>                  | <b>Fourth Wave<br/>(2000 to Date)</b> |
|---------------------------|---|---|---|---------------------------------------|
| <b>Goal</b>               | Attract Outside Firms                       | Retention and expansion of firms                | Enhance regional resources to promote industrial clusters | Enhance global competitiveness        |
| <b>Location of Assets</b> | Discount them to attract outside business   | Reduce taxes and provide incentives to business | Build regional collaboration                              | Global, since there are no boundaries |
| <b>Business Focus</b>     | Outside firms                               | Assist all local firms                          | Create context for better relations among firms           | Being internationally friendly        |
| <b>Human Resources</b>    | Create jobs for locally unemployed people   | Develop training programs                       | Utilise workforce training to build businesses            | Investment in human capital           |
| <b>Community base</b>     | Physical resources                          | Social and physical resources                   | Leadership and development of quality environment         | Build on international resources      |

Source; adapted from Clarke and Gaile (1998)

This pressure may be at local, national or international level (ibid). For example in South Africa despite a largely stable macro economic climate and large metropolitan cities, poverty still exists side by side with prosperity (May 2004). This is also echoed internationally with a great divide between the developed countries and developing countries (UNDP 2006). On one side are poor countries with relatively high birth rates and low life expectancies. On the other side are wealthy countries with birth rates so low that population decline and rapid aging are likely (UNDP 2006). This divide involves a set of forces that affect the economic, social, and political circumstances in these countries. In this regard The United Nations at the UN millennium summit in 2000 embarked on the Millennium Development Goals program where one of the goals is poverty alleviation through various strategies including LED (UNDP 2005). Helmsing (2001) classifies LED strategies into three namely; community economic development (CED), enterprise development and locally planning which are described below.

## 2.2.1 Community Economic Development (CED).

Community economic development is development from the inside to the outside and its goal is development and empowerment of the individual and community (McLaughlin and Davidson 1994). CED is the process by which local people build organizations and partnerships that interconnect profitable business with other interests and values: for example, skills and education, health, housing, and the environment (Helmsing 2001). In CED more local people get involved, describing how the community should change and organizations look for ways to make their actions and investments reinforce the wishes and intentions of the whole community (Perry 2003). With CED business becomes a means to accumulate wealth and to make the local way of life more creative, inclusive, and sustainable - now and the years to come (ibid). CED thus focuses on developing a community and involves various strategies such as women empowerment, training local businesses and harnessing human capital through training (Reich 1993 cited by Helmsing 2003). Helmsing (2003) points out that CED aims at, stimulating a sense of belonging, to promote self help and empowerment, to contribute to the generation of (self) employment, to improve living and working conditions in settlements and to create public and community services. Helmsing has with taxonomised and classified CED strategies namely; creating local safety nets, housing improvements and settlement patterns, basic service delivery and stimulating the local economy. These are described below.

- i. **Creating Local safety nets-** Poverty shocks of any kind further deepens poverty, hence creating safety nets and reducing insecurity is essential for better LED conditions (Helmsing 2003). For example creating day care centres means women have more time to partake in economic activities (ibid). Credit groups and savings clubs may be formed to meet local emergencies. While physical security can be enhanced by formation of neighbourhood watch committees who patrol the community (ibid). However Helmsing notes that physical security is a serious economic problem which needs to be addressed.
- ii. **Housing improvement and settlement pattern-** Settlements can be upgraded by improving infrastructure such as water, electricity and sewerage pipes. Houses may also be upgraded taking into consideration that a house is not only a place of

residence but economic activity as well (UN HABITAT 2000). In Zambia informal settlements have been upgraded by provision of services such as water (Helmsing 2001).

- iii. **Basic service delivery**- Unbundling of basic service delivery through privatization and or on a non profit basis can stimulate a local economy. In Ghana Accra 51 Small to medium scale enterprises have been contracted to provide public latrines (Helmsing 2001). Waste collected has also been subcontracted to SME's (Aworti.2003).The 2010 soccer world cup has also meant a boom in the local South African Industry through subcontracting of building infrastructure.
- iv. **Stimulating Community Economy**- A communities economy may be depressed because of an uneven playing field in terms of market entry (Helmsing 2003). Individuals and households fare worse in a market led economy because they lack the resources to effectively produce and compete, and also there are barriers to entry. However this may be ameliorated by removing barriers to entry and recognizing the importance of the informal sector. Programmes may also be carried out to stimulate development; these include credit programmes, training of SME's as contractors of basic services and technical assistance and marketing (ibid).Such initiatives may help train those that are deemed unemployable to become part of the workforce(ibid).

### **2.2.2 Enterprise Development.**

Enterprise development refers to improving the economic base of an area (Schmitz 1998). The economic base refers to those firms which are export geared, the destination of these exports could be other parts of the country or beyond national borders (Helmsing 2001; Schmitz 1995:). These exporting firms have a tendency to cluster since several benefits accrue to them (Schmitz 1998). These benefits include, firms supporting each other , reduced transaction costs as a result of close proximity to each other, being in a position to lobby for better training and education thus increasing the capacity to learn(ibid). The economic base is improved by attracting foreign direct investment, supporting invention, innovation and diffusion by local firms (Schumpeter1976). The economic base can also be enhanced by promotion of Small to Medium Enterprises which involves

having in place allied services such as finance, transport and freight and promoting industrial clusters (Helmsing 2001).

It is argued that Marshall (1919) cited by (Helmsing 2001) was the first to recognise the potential of industrial clusters. He defines industrial clusters as a concentration of small firms in the same industry which are indivisible from the local industry and local society. In essence they are one unit hence their usual reference in literature as agglomeration economies (Nadvi 1999). Becattin (1990 cited by Helmsing 2001) defines industrial clusters as a socio-territorial entity which is characterised by the active presence of both the community of people and firms. Onus and Malecki (1999) on the other define industrial clusters as an embodiment of interaction and dense network of linkages between firms that comprise of a local production system, usually around a single or highly related industry.

From the above definitions industrial clusters are characterised by specialisation, division of labour, they are indivisible from the local areas values and norms and they operate within close proximity of each other (Marshall 1919; Nadvi 1999; Sahel 1989; Storper and Scot 1989 cited by Helmsing 2001). Examples of clusters include the Massachusetts Biotech cluster USA, the leather cluster in Tuscany Italy, the fish processing cluster Lake Victoria, Kenya and the garment cluster in Lima, Peru. These clusters differ in the level of sophistication with the Massachusetts cluster being a hi-tech cluster and the garment cluster in Lima generating income for the community (McCormick 1998 cited by Helmsing 2001). Asheim (1997) seeing the difference in sophistication goes on to classify industrial clusters according to the level of sophistication. This differentiation is also seen in SME's where they range from simple incipient SME's to mature SME (Nadvi 1999). According to Asheim industrial clusters as range from Mark I (low level of sophistication) to Mark IV (high level of sophistication). The typology is summarised in the table 3 below.

From table it is clear that industrial clusters (Mark I) are not sophisticated in terms of organisation whilst the Silicon Valley cluster, which is a Mark IV, is highly organised. Nadvi and Schmitz (1999) go further to taxonomies industrial clusters into incipient or survival clusters and mature clusters. Incipient clusters are at an early stage of development and are usually located in poor areas, producing for local areas, with simple skills and technology.

**Table 3: Typology of Industrial Clusters**

| Internal Resources and Competence | Mark I  |  | Mark II  |
|-----------------------------------|---|--|--|
|                                   | Low   | Local production systems with low potential for technological-building (for example Gnosjo Sweden, Garment Cluster Lima Peru)  | Local production systems with some potential for technological capacity building (for example Small firm districts Emilia-Romagna Italy) |
| High                              | <b>Mark III</b><br>Local production systems with good potential for technological capability-building (for example Tuscany leather Cluster) | <b>Mark IV</b><br>Local production systems with high technological capacity (for example Massachusetts Biotech Cluster, Information Technology Cluster Silicon Valley USA) |  |

Source: Adapted from Asheim (1997)

Mature clusters on the other hand, are relatively more advanced in technology and skill, often producing for global markets and thus vulnerable to global competitive pressures (Meyer-Stammer 1999; Nadvi and Schmitz 1999). It is important to note that the incipient clusters, since they are usually located in poor neighbourhoods are important for poverty alleviation (Nadvi 1999), thus LED strategies should not only promote them but make them sustainable so as to win the battle against poverty.

### 2.2.3 Locality Development

LED requires certain infrastructure, services and socio economic capital for it to succeed; this is provided through planning and putting in place the infrastructure as well as the capital through local development planning (Helmsing 2003). Meyer-Stamer (2005) argues that locality development unlike CED and enterprise promotion is of a longer horizon. He argues that LED involves a clash of cultures. There is the culture of planners, who are used to thinking in very long-term projects and there is the culture of businesses, who think in very short periods. Coupled with this is the need to deliver results such as poverty reduction in the short to medium term. The question therefore becomes who wins, moreover it has to be noted that there needs to be a balance between business promotion, CED and locality development.

Local development planning aims to maximize positive externalities of LED reduce conflict, thereby enhancing attractiveness of an area such that LED goals as poverty reduction are realized (ibid). Locality development has several components such as participatory LED, physical planning and development control, urban planning and design, infrastructure and socio economic overhead capital (Helmsing 2003; Meyer-Stamer 2005). These are briefly described below.

- i. Participatory LED acknowledges that LED is multi sector, multi level and multi actor (Helmsing 2003). Thus the local authority undertaking LED should coordinate development through information provision and exchange, broad based procedures and effective consultations. The City of Cape Town has embarked in such participatory planning wherein needs of all sectors are considered by the local authority (Pieterse and Parnell 1999).
- ii. Physical planning and development control emphasises zoning and planning controls (Helmsing 2003). These laws have to be flexible, simple and transparent so as to deter corruption and attract investors. Coupled with physical planning is urban design and planning. Cities may embark on designs that are attractive and pleasing aesthetically (Castells 1998), for example Durban is undertaking a green areas project for greening the city, Blakley (1994) refers this to as townscaping.
- iii. Provision of infrastructure is also crucial in attracting potential investors, if infrastructure is available it entails lower investments cost and more profits (Helmsing 2003). The Local authority may also subcontract the provision of basic services to stimulate the local economy. Like infrastructure socio economic capital is essential for investments (ibid). This involves forging links in education, training, research and development and provision of information technology. This maintains a knowledgeable workforce, which is urged to be innovative thereby creating comparative advantage of an area. The city of Buluwayo in Zimbabwe has forged links between industry and The National University of Science and Technology (Zaajer 1998 cited by Helmsing 2003).

## 2.3 DIMENSIONS OF POVERTY

The way people define poverty has evolved from being absolute to be more encompassing by being relative and currently the debate is the multi dimensionality of poverty (UN 2000) as intimated in the statement below.

*“Don’t ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at my utensils and the clothes that I am wearing. Look at everything and write what you see. What you see is Poverty”. —A poor man, Kenya 1997 pg 26 (World Bank 1999)*

Poverty is known to assume many faces in space and time as implied in the above statement. To some poverty is hunger, lack of shelter, being sick, not being able to see the doctor, not going to school, being jobless, having unclean water, being powerless and lacking representation (World Bank 2002; World Bank 1999). Thus poverty is some form of deprivation; however it differs from deprivation in that deprivation implies unmet peoples needs while poverty implies lack of resources to meet those needs (Townsend 1979). The Asian Development Bank (2007) taxonomises poverty into groups namely; human poverty which is the lack of essential human capabilities, notably literacy and nutrition; income poverty which is the lack of sufficient income to meet minimum consumption needs; absolute poverty which is the degree of poverty below which the minimal requirement for survival are not being met and relative poverty, which is lacking necessary requirements considered normal. These types of poverty are discussed below.

### 2.3.1 Absolute Poverty

Absolute poverty is when or if total earnings of a person or household are insufficient to obtain the minimum necessities for the maintenance of a mere physical efficiency (Rowntree 1901: p186 cited by World Bank 2002). Oppeinham (1993) argues that absolute poverty is when you cannot house, clothe or feed oneself, in essence one cannot physically sustain oneself. Absolute poverty quantifies the number of people below a poverty threshold, and this poverty threshold is independent of time and place (World Bank 2002). Thus for example for the measure to be absolute, the line must be the same in different countries. The World Bank has championed such thresholds based on consumption since it better captures long run welfare than income (Chen and

Ravallion 2000). Thus the World Bank since 1990 has created poverty lines wherein one is classified poor if one is living below \$1.08 a day usually translated to one dollar a day. When creating these lines, The World Bank uses purchasing power parity (PPP) and exchange rates to confirm that the poverty lines are comparable between countries (World Bank 1999). The intuition behind an absolute measure is that mere survival takes the same amount of goods across the world and that everybody should be subject to the same (World Bank 1999). However scholars like (Davidson 2002; Townsend 1979) argue that poverty cannot be aggregated into a single domain (income /consumption) but is relative.

### **2.3.2 Relative Poverty**

Relative poverty acknowledges that income and consumption are necessary but not adequate measures in defining poverty (World Bank 1990). Relative poverty is the falling behind by a certain degree from the average income and lifestyle enjoyed by the rest of society where one lives (Davidson 2002) as described in the statement below.

*“If I consider how other people live, then I feel poor because I cannot give my child what he needs— this is not normal.” —Latvia 1997 pg 53 (World Bank 1999)*

The woman in the above statement considers herself poor because she lacks what is considered normal in her society. Townsend (1979) goes on to further include items considered customary therefore individuals are in poverty if they lack the resources to obtain the types of diets, participate in activities and have living conditions and amenities which are customary or at least widely approved. Thus poverty has cultural or qualitative implications. Relative poverty unlike absolute poverty, acknowledges that people’s needs are not merely physical but social. People are not merely individual organisms requiring sources of physical replenishment but also social beings, they are not consumers but are producers as well (Townsend 2006). However what is relative differs from one society to the other. Others scholars have also gone past relative and come up with human poverty, which has attracted attention of development organisations.

### 2.3.3 Human Poverty

Human poverty is defined as lack of basic human capabilities mainly nutrition, literacy, abbreviated life span, poor maternal health and illness from preventative diseases (UNDP 2006). This is echoed in the statement below.

*If you don't have money today, your disease will take you to your grave.  
—An old woman, Ghana 1995a pg 42 (World Bank 1999)*

Human poverty also entails other indirect measures such as lack of access to services and goods, infrastructure, energy, sanitation, education, communication and drinking water necessary to sustain basic human capabilities (Sen 1999; World Bank 2000; Chambers 1995). In essence human poverty entails deprivation in non income terms but in human terms. Sen (1999) defines human poverty as being unable to choose a life that one values. This is also in line with the United Nations Millennium Development Goals (MDG's) wherein the major goal is to alleviate poverty in as far as expanding human capabilities are concerned. The MDG's are; to eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality, reducing child mortality, improve maternal health, combating HIV/AIDS and malaria, ensuring environmental sustainability and developing a global partnership for development (UN Millennium Summit 2000).

The above goals acknowledge that poverty is not merely deprivation of income but lack of human capabilities which is defined here as, denial of opportunities and choices most basic to human development to lead a long healthy, creative life, enjoying a decent standard of living, freedom, dignity, self esteem and respect from others (Statistics South Africa 2000; Sen 1999; UNDP 2003). Poverty is thus multidimensional and pervasive, as 1.2 billion people around the globe still live on less than a dollar a day and nearly 850 million people go hungry every night (UNDP 2006). Poverty reduction should therefore be the centre of development efforts (UNDP 2006).

## 2.4 APPROACHES TO POVERTY ALLEVIATION

Poverty reduction (or poverty alleviation) is any process which seeks to reduce the level of poverty in a community, or amongst a group of people or countries (UNDP 2002). At this juncture it is also important to differentiate between poverty alleviation and eradication. Alleviation as noted above aims at reducing poverty levels or to make it bearable whilst eradication implies total removal (UNDP 2002). This thesis focuses on alleviation not eradication. Poverty alleviation has a number of strategies depending on the way one defines poverty thus there are various approaches to poverty alleviation. These approaches are summarized on (table 4, next page).

What emerges from table 4 is that one's approach to understanding poverty leads to a particular kind of response to solving the problem. For example, poverty reduction from a basic needs perspective would tend to emphasize the provision of water or housing, while from organizations promoting sustainable livelihoods would focus on micro scale issues such as access to urban agriculture, rather than on the poverty related impacts of wider social tensions such as racism or sexism which would be favored by the social exclusion approach (Pieterse and Parnell 1999). The human development approach is unique for its emphasis on participation and political inclusion in reducing poverty (UNDP 2000). Poverty alleviation can also be divided into two.

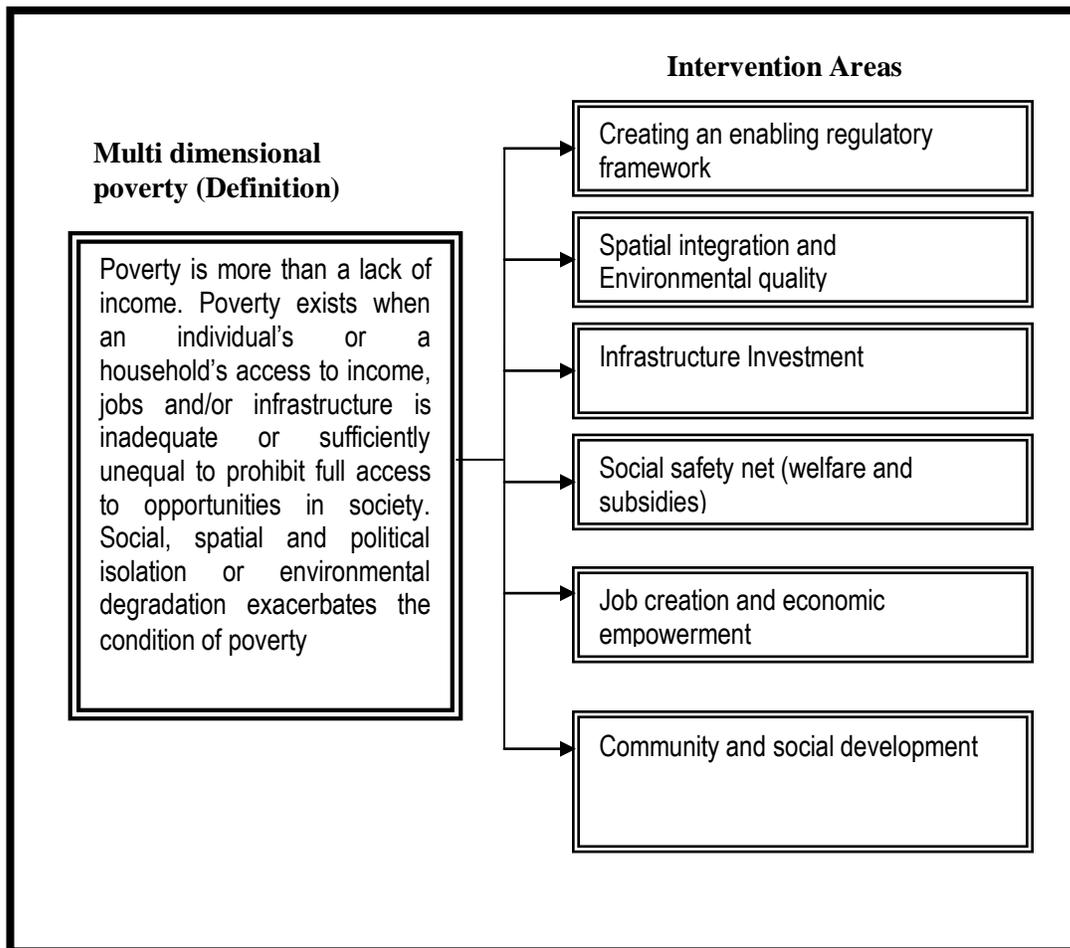
Kistjanson et al (2004), taxonomies poverty alleviation strategies into two, namely cargo and safety net strategies. Cargo net strategies help the poor climb out of poverty whilst safety net strategies stop people from falling into poverty. Therefore cargo net strategies should be supported by safety nets so that they are effective and sustainable in the long run. For example in western Kenya apart from building the Poor's asset through livestock, safety nets such as improved animal and human health and education to protect the people from falling deeper into poverty. By providing education it helps to diversify income since it improves employability, whilst improving veterinary services helps stem loss of livestock (McPeak 2003 cited by Kristjanson et al 2004). This approach therefore acknowledges that poverty has so many causes and no one solution will solve all problems, therefore poverty should be attacked from a multi-dimensional perspective (Agenda 21 cited by Strachan et al 2005). Multi-dimensionality is depicted in figure 5 below.

**Table 4: Approaches to Poverty Alleviation**

| <b>Approaches to poverty:</b>                                     | <b>Lack of income</b>   | <b>Inadequate resources to satisfy basic needs</b>  | <b>Social Exclusion</b>   | <b>Human Development</b>  | <b>Sustainable Livelihoods</b>  |
|---|---|---|---|---|---|
| <b>Agencies who promote this approach</b>                         | A wide variety of agencies, including most governments.<br>This is the most common definition                                   | World Bank  | Northern governments and NGOs working in Northern countries   | UNDP  | Southern NGOs - especially those working in rural areas.  |
| <b>Poverty alleviation strategies this perspective focuses on</b> | <ul style="list-style-type: none"> <li>- welfare</li> <li>- subsidies</li> <li>- job creation</li> <li>- wage levels</li> </ul> | <ul style="list-style-type: none"> <li>- physical infrastructure investment (e.g. low income housing construction, sewage installation)</li> <li>- Social infrastructure provision (e.g. provision of clinics and schools)</li> </ul> | <ul style="list-style-type: none"> <li>- Cultural and political values that make poor people unable or unwilling to participate in the society (e.g. geographical isolation, informal and institutionalized racism and sexism)</li> </ul> | <ul style="list-style-type: none"> <li>- A range of activities ranging from job creation, to infrastructure provision and enhanced participation in urban developments</li> </ul> | <ul style="list-style-type: none"> <li>- The exclusion of the poor from making decisions about their own development priorities.</li> <li>- The asset base that the poor have established that helps them cope</li> </ul> |

Source: Pieterse and Parnell (1999)

**Figure 5: Poverty Alleviation from a Multidimensional Perspective**



Source: Adapted from Pieterse and Parnell (1999)

From figure 5 above reducing multidimensional poverty has six intervention areas which should be adopted simultaneously, this approach is referred to as an integrated approach to poverty alleviation (Moulaert 2000). This approach acknowledges that poverty dynamics located in one category can easily be related to or even be located in another category (Friedman 1996). The inter-relationship between the six intervention areas is a critical success factor in operationalising this framework effectively (Pieterse and Parnell 1999). The intervention areas are considered in more detail in the Literature review. Other scholars argue that for effective poverty alleviation poverty itself should be adequately measured (Smith 1999).

## **2.5. INDICATORS OF POVERTY**

Poverty is measured in various ways using various poverty indicators .It can be measured using poverty lines, if one ascribes to relative poverty and more recently given the multidimensional approach to poverty the UNDP has developed indices such as Human Development Indices (HDI), Human Poverty Index (HPI) and the City Development Index (CDI). Measuring poverty is essential since it reflects the results of dynamic social, economic and political processes which disadvantage (or advantage) the community (Smith et al 2001). Measuring poverty also assists in targeting areas for poverty alleviation (ibid). The various poverty measures are discussed below.

### **2.5.1 Poverty Line**

The poverty line is based on household income and expenditure surveys (World Bank 2002). The poverty line is a threshold or critical cut-off in consumption below which a person or household is considered poor (World Bank 2002). The poverty line is based on income which is defined as the command over resources over time or as the level of consumption that can be afforded while retaining capital intact (UN HABITAT1996).This level is usually set \$1.08 but usually referred as a dollar a day(as already mentioned in section 2.3 pg 25 and 26). The poverty lines may be relative and absolute. Relative poverty lines arbitrarily set the line in relation to the average expenditure (bundle of goods) or income in a country (Asian Development Bank ADB 2007). Absolute poverty lines are anchored in the standard of what households should be able to consume so that they are not deprived. Absolute poverty lines are fixed in time and space, while relative poverty lines can vary (Asian Development Bank ADB 2007).

Poverty lines are useful in poverty comparison between countries but not nationally hence there is a need for country specific lines or urban or rural lines (UN HABITAT1996). Its weakness include that surveys to gather information on household income vary according to space and time ,and at times comparisons are difficult since converting information from surveys is based on certain assumptions, thus there might be errors (UN HABITAT1996; World Bank 2002). Poverty lines also do not reveal inequality within a household based on gender and age. The poverty line also fails to account for the vast differences among the poor which might lead to LED policies addressing poverty directed toward the least poor (World Bank 2002). Thus poverty lines should be used in

conjunction with other measures to inform LED policies so as to enhance the impact of LED on poverty alleviation. To this end other indices such as HDI and CDI have been developed.

## **2.5.2 Human Development Index (HDI)**

The human development index is a more holistic measurement of poverty. Its broad based and using it means that change in a particular area can be monitored (UNDP 2000). The index was developed in 1990 by Pakistani economist Mahbub ul Haq and has been used since 1993 by the United Nations Development Programme in its annual Human Development Report. The HDI measures the average achievement of a country in basic human capabilities. The HDI “measures the average achievement in a country in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living.” (UNDP 2006). It determines whether a country or area is developing with emphasis on improving human capabilities. The human development index is a composite of three equally weighted measures; life expectancy index, education attainment index and GDP index (ADB 2007). It is measured on a scale of 0-1 with zero being the lowest 0.5 being the medium and 1 being the highest.

The breakthrough for the HDI was to find a common measuring rod for the socioeconomic distance traveled (ADB 2007). It shows the progress made in various aspects of human development. The human development index is a useful measure in that it captures the attention of policy makers, LED practitioners and governments interested in assessing the impact of economic development on poverty alleviation (ADB 2007). Thus it poses the question why economic growth may not be reducing poverty thereby leading to reformulation of policies and questioning of LED policies. The HDI also highlights differences between groups, countries, race and ethnic origins (ADB 2007). However it is important to note that the process of human development is much broader than HDI. Moreover items needed for the calculation for the HDI such as education are difficult to measure and at times data may not be available. To augment the HDI the UNDP then developed the Human Poverty Index (HPI) whilst UNCHS developed the City Development Index (CDI). For this research however the HPI is not employed due to difficulty in getting data relating to the percentage of underweight children.

### 2.5.3 City Development Index (CDI)

The CDI was developed by the United Nations Center for Human Settlements (UNHCS HABITAT) in an attempt to measure urban development and urban poverty. The CDI is defined at the city level and could also be taken as a measure of average well-being and access to urban facilities by individuals (HABITAT 2000). It is argued that the CDI is, to date, the best single measure of the level of development in cities. The process of calculating the city development index is almost similar to that of the HDI, wherein sub indices are constructed to come up with a composite index (HABITAT 2000). For the CDI<sup>1</sup> it is based on 40 key urban indicators aggregated into five sub-indices – City Product, Infrastructure, Waste, Health and Education - the values of which range from 0 to 100 (HABITAT 2000). This research employs the CDI since it correlates well with the HDI. The City Development Index is a fine predictor of its constituent variables; moreover it is usually a better measure than either city product or the HDI as predictor of a range of other variables at the city level (ibid). The CDI has been cited as a good index of urban poverty and urban governance, while health, education and infrastructure components are particularly good variables for measuring poverty outcomes in cities (ibid). Similarly, infrastructure, waste and city product components are key variables for measuring the effectiveness of governance in cities. The CDI correlates strongly with the city product; other things being similar, a high-income city will have a higher CDI. An important revelation has been that many cities do perform better or worse on the City Development scale relative to their city product, clearly implying the fact that policy matters (HABITAT 2000). This means that if cities have invested in physical and social infrastructure, dividends will be received in those and other areas of city development. It therefore augurs well with the multi dimensional approach which this research employs wherein other indicators of poverty and development are employed.

By way of concluding on the poverty indices it is important to note that data can also be analysed by comparing how a particular indices fares in relation to gender. The above indices also feed and complement each other where the HDI focus on capabilities whilst the CDI adds and its indices or embraces the basic needs approach whilst both indices embraces the income approach. Thus the indices help in assessing poverty from various dimensions which is essential in determining the extent to which LED is pro-poor.

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<sup>1</sup> For a detailed calculation of the CDI and its sub indices see chapter section 6.5

## 2.6 PRO POOR GROWTH

Pro poor growth is defined as patterns or rates of economic growth that are associated with significant increases in the incomes of the poor (Kausen 2006). San (2006) further elaborates by arguing that pro poor growth is when poor households increase income or consumption proportionally more than the non-poor. If growth is negative –during a recession its pro poor if the income decrease is proportionally less on average for poor households than for the non-poor ones (ibid). Kausen further points out that pro poor growth is crucial in reducing poverty and the achievement of the MDG's. For pro poor growth to be realized, pro poor policies should be targeted at the poor. Policies which enable poor people to participate in and benefit from growth are essential for pro-poor growth. From a value chain perspective pro-poor growth is when there is an increase in the total amount and value of products that the poor sell in the value chain. This results in higher absolute incomes for the poor as well as other actors in the value chain (Kaplinsky and Morris 2001; van den Berg et al 2007). Growth will also be pro-poor when the share of the poor is sustained or their margins per product are increased so that the poor do not only gain absolute income but also relative income compared to other actors in the chain (van den Berg et al 2007). With regards to KwaMashu it therefore entails mainstreaming the poor into the value chain. This requires a conscious and sustained effort on the part of the political machinery such as local authorities to provide conditions for broad based development in areas where the poor people live. Policies like the URP, which target areas of greatest need like KwaMashu, may be said to be pro-poor however evidence is lacking to support this assertion (Mabin 2005). The application of a pro-poor lens in LED, casts a light on the economic, systematic and structural constraints facing the poor and enhancing the design of policies to ensure that they are among the principal participants and beneficiaries of growth (UNDP 2006; van den Berg et al 2007). Kimenyi (2006) takes up the idea further by coming up with the 'ten commandments of pro poor growth' which can be applied to LED. These commandments may be used to assess whether an LED program like the ABM in KwaMashu is pro-poor. These commandments are described below.

- i. Pro-poor LED should target activities, which the poor are most involved in, and because markets of the poor are generally not well integrated with other formal markets, pro-poor

markets policies must influence markets of the poor directly and should not be based on assumed leakages from other sectors.

- ii. Pro-poor reform policies must focus on improving the functioning of markets where people participate.
- iii. Pro-poor LED policies should target low skill, labour intensive economic activities.
- iv. Pro-poor reform should policies seek to reduce market segmentation so that markets for the poor are better integrated in the economy. This means improving on the forward and backward linkages.
- v. Pro-poor growth strategies should ring fence public expenditures for raising capabilities of the poor.
- vi. Pro-poor LED policies should target those groups that operate outside the markets with the aim of creating.
- vii. Pro-poor reforms should include a food security policy.
- viii. A broad pro-poor growth strategy should include policy initiatives that protect vulnerable populations from large swings in welfare.
- ix. Pro-poor growth should include policies that support accumulation of tradable assets by the poor.
- x. Pro-poor growth reforms should include institutional reforms that empower the poor through progressive diffusion of power.

In conclusion these ten basic principles for pro-poor growth rely on a common approach, which focuses on what poor people actually have, what they do, where they live, what they can offer the market and how they can increase their output (Kimenyi 2006). These principles also point out the need to view the poor as people rather than numbers or averages and getting a better understanding of the economy and linkages within sectors and regions (ibid). With regards to the KwaMashu ABM these principles can be applied as a lens to asses whether LED strategies in KwaMashu involve the poor, empower the poor or whether the LED strategies are endogenous or not? In essence the ABM in KwaMashu must by design invigorate what the poor do much more than anything else for successful poverty alleviation. Inequality, which impacts on poverty alleviation and growth, is considered below.

## 2.7 INEQUALITY

Inequality means different things to different people (Litchfield 1999). Income inequality refers to the disparities in economic assets and income (Litchfield 1999; Kuznets 1955; World Bank 2000). The World Bank goes on to argue that inequality is the dispersion of a distribution, whether that is income, consumption or some other welfare indicator or attribute of a population. For example there may be inequality in the access and provision of basic infrastructure such as water reticulation. Inequality can be measured using the Gini Coefficient developed by Italian statistician Corrado Gini in 1912. The Gini Coefficient is a measure of income inequality that ranges between 0, indicating perfect equality, and 1, indicating complete inequality (UNDP 2003; Feldstein 1999). A feature of the Gini Coefficient is that an increase in the incomes of the rich with no change in the incomes of others will raise the Gini Coefficient (Feldstein 1999). The Gini coefficient is useful in measuring inequality since it helps in making country comparisons, it highlights changes in distribution of income inequality and it is scale and population independent (James 1962). However comparisons between countries may be difficult to make using the since benefit systems differs, it may also underestimate the level of inequality, it gives different results if applied to individuals and households, and like all statistics there may be data errors (World Bank 2000; UNDP 2003; James 1962).

Inequality can be across people within the same nation, across countries and across the world's people (UNDP 2003). Inequality across people within the same nation is useful in analyzing the correlation between a country's policies, mainly typically economic openness or redistribution measures—and its distribution of income (UNDP 2003; World Bank 2000). For example it is necessary to evaluate policies such as the URP, RDP, INK ABM, ASGIA to assess whether they are achieving their intended results of redistributing income and other welfare access indicators such as use of electricity to the poor. Inequality across nations measures difference in national per capita incomes. In 1820 Western Europe's per capita income was 2.9 times Africa's—and in 1992, 13.2 times (Madison 2001; UNDP 2003). However fast-growing emerging economies such as China and India are catching up with parts of the industrialized world, such as North America and Western Europe. Inequality across the world's people is the distribution of income across citizens of the world, regardless of national borders (UNDP 2003, Castells 1998). This inequality is termed

global inequality whose definition of global income inequality is fuzzy and its trends ambiguous, however there is widespread consensus that it has been on the rise recently (ibid).

Inequality and poverty are closely related (Litchfield 1999). Inequality impacts on poverty, economic development and economic growth; and also some poverty measures such as Gender Development Index (GDI) incorporate inequalities between male and female (ibid) this is considered in detail in the literature review. The section that follows considers the theories underpinning the above definitions.

## **2.8 THEORIES**

This section seeks identifies the theories, tools and approaches of LED and poverty which form an integral part of this research. The following section describes the theories of economic development, development, and debates around development and poverty.

### **2.8.1 Theories of Economic Development<sup>3</sup>**

Economic development is “fundamentally about enhancing the factors of productive capacity namely land, labor, capital, and technology of a nation, state or local economy” (Economic Development Agency EDA 2007). The public sector usually is the first to set the stage for economic development. The public sector generally seeks to increase incomes, the number of jobs, and the productivity of resources in regions, states, counties, cities, towns, and neighbourhoods (EDA 2007, World Bank 2003). Its tools and strategies have often been effective in enhancing a community's:

- labour force (workforce preparation, accessibility, cost);
- infrastructure (accessibility, capacity, and service of basic utilities, as well as transportation and telecommunications);

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<sup>3</sup> Theories of economic development are used since LED offers no comprehensive model to follow comfortably, moreover LED lacks specificity on what's local. LED discourse is only indicative and others argue that its nothing new but an offshoot of economic development or an assimilation of previous policies which failed but not utterly rejected. Other scholars argue that it's a discipline coming into its own with competing strands of argumentation which still generate discomfort.(Bond 2003; Pose 2001; Meyer –Stamer 2005)

- business and community facilities (access, capacity, and service to business incubators, industrial/technology/science parks, schools/community colleges/universities, sports/tourist facilities);
- environment (physical, psychological, cultural, and entrepreneurial);
- economic structure (composition) and
- institutional capacity (leadership, knowledge, skills) to support economic development and growth (EDA 2007; Helmsing 2001; World Bank 2003; Clarke and Gaile 1998).

Economic development strategies may also have tradeoffs for example increasing productivity may lead to job losses thus some people may find themselves in poverty. There is debate amongst economic development theorists on which strategies best enhances a community. This debate centers on whether place- based or people- based strategies is the best (Spencer 2005). Another debate in economic development is the various views of different professionals. To most economists, economic development is an issue of more economic growth (EDA 2007). To many business leaders, economic development is a public policy that will increase competitiveness of an area (World Bank 2007, Clarke and Gaile 1998). To those who think that government should more actively direct the economy, economic development is a code phrase for industrial policy (EDA 2007). To environmentalists, economic development should be sustainable development that harmonizes natural and social systems. To labor leaders, it is a vehicle for increasing wages, benefits, basic education, and worker training (ILO 2006). To community-based leaders and professionals, economic development is a way to strengthen inner city and rural economies in order to reduce poverty and inequality (Helmsing 2001). To public officials at state and local levels, economic development embodies the range of job creation programs broadened since the 1980s in response to the decline of assistance from the central government (EDA 2007).

Owing to the various views of economic development many theories of economic development therefore abound. The theories used by economic developers determine, “either explicitly or implicitly, how these developers understand economic development, the questions they ask about the process, the information they collect to analyze development, and the development strategies they pursue” (EDA 2007). These theories are summarized on the table 5 below.

**Table 5: Summary of Economic Development Theories**

| Theory                                      | Basic Categories   | Definition of Development  | Essential Dynamic  | Strengths and Weaknesses   | Application  |
|---|--|--|--|--|--|
| <b>Economic Base</b>                        | Export or basic and nonbasic, local or residentiary sectors          | Increasing rate of growth in output, income or employment          | Response to external changes in demand; economic base multiplier effects   | Most popular understanding of economic development in the United States and a simple tool for short-term prediction. Inadequate theory for understanding long-term development | Industrial recruitment and promotion for export expansion and diversification, expansion of existing basic industries, import substitution by strengthening connections between basic and nonbasic industries, and infrastructure development for export expansion |
| <b>Staple</b>                               | Exporting industries   | Export-led economic growth   | Successful production and marketing of the export staple in world markets. External investment in and the demand for the export staple | Historical perspective on economic development. Descriptive theory difficult to apply  | Build on export specialization. State does everything possible to increase competitive advantage. Character of economic base shapes political and cultural superstructure  |
| <b>Sector</b>                               | Primary, secondary, and tertiary sectors                             | Greater sectoral diversity and higher productivity per worker      | Income elasticity of demand and labor productivity in primary and secondary sectors  | Empirical analysis possible. Categories are too general  | Promote sectoral shifts. Attract and retain producers of income elastic products   |
| <b>Growth Pole</b>                          | Industries   | Propulsive industry growth leads to structural change              | Propulsive industries are the poles of growth  | General theory of initiation and diffusion of development based on the domination effect .It has failed generally  | Growth center strategies   |
| <b>Regional Concentration and Diffusion</b> | Commodities and factors (Myrdal 1950) or industries (Hirschman 1958) | Higher income per capita   | Spread and backwash effects (Myrdal) or trickle-down and polarization effects (Hirschman)  | Address the dynamics of development  | Active government to mitigate backwash effects and reduce inequalities (Myrdal). Location of public investments spurs development (Hirschman)  |
| <b>Neoclassical Growth</b>                  | Aggregate (macro) or two-sector regional economy                     | Increasing rate of economic growth per capita                      | Rate of saving that supports investment and capital formation  | Supply-side model thus its not sufficient enough .Trickle down effects might not trickle   | Government should promote free trade and economic integration and tolerate social inequality and spatial dualism   |
| <b>Interregional Trade</b>                  | Prices and quantities of commodities and factors                     | Economic growth that leads to greater consumer welfare             | Price adjustments that result in equilibrium terms of trade; price-quantity-effects  | Unique emphasis on consumer welfare and price effects. Ignores the dynamics of development   | Government intervention should promote free trade. Infrastructure development, efficient local government  |
| <b>Entrepreneurship</b>                     | Entrepreneurs or the entrepreneurial function                        | Resilience and diversity   | Innovation process; new combinations   | Mediated theory thus people make development happen. Its not easy to apply   | Support industrial milieu or ecology for development   |
| <b>Flexible Specialization</b>              | Production, regimes, industrial plan                                 | Sustained growth , agile production, innovation and specialization | Changes in demand requiring flexibility among producers  | Detailed analysis of firm/industry organization; aggregate outcomes and relationships seldom specified   | Encourage flexibility through adoption of advanced technologies, networks among small firms, and industry cluster strategies   |

Source: Adapted From (EDA 2007, Emil and Fesser (1999

From table 5 it is evident that there are various competing theories of economic development which assign different definitions of development. At times development may be mistaken for growth thus it is necessary to distinguish the two. Growth is quantitative change in the scale of the economy measured in terms of investment, output, consumption and income (EDA 2007; Rostow 1960). Development on the other hand is a qualitative change, which entails change in structure of the economy, including innovations in institutions, behavior and technology (EDA 2007; Todaro 2000). From this view development is qualitative and economic growth quantitative. Development is a prerequisite to growth and a result of growth (EDA 2007). Other scholars have gone on to define development in non monetary terms but in definitions that address equity and sustainability (UN 2000; Kegly 1999).

Economic Development theories have now focused on the economically disadvantaged and depressed communities (Bond 2003; EDA 2007). Apart from increasing economic growth the new economic development theories have a broader definition of development and they include shared growth and sustained growth (EDA 2007; Stiglitz 1998). Development in this new paradigm entails enrichment of material, social well being, which can be measured monetarily and in the increase or decrease in an areas quality and quantity of public goods(such as clean air water ,freedom from crime) and access to jobs and opportunities for advancement (EDA 2007; Kegly 1999;World Bank 2003). Development is thus broadened and encompassing, it implies explicitly or implicitly being pro- poor (EDA 2007). Shared growth on the other hand means that development should be distributed and that there should be meaningful participation of the people in economic development (Mbeki 2000). Development also has to be sustained meaning that it does not detract from but rather enhances the economy to achieve the same goals in the future (EDA 2007).

## **2.8.2 Development Theories**

Development is a highly contested concept (Willis 2005). It assumes various definitions depending on what concept of development is emphasized. This ranges from economic, human, basic needs to sustainability approaches. It can be defined in purely economic terms wherein the ultimate aim is increasing economic output as measured in indices such as GDP (Willis 2005). World Bank economist, Joseph Stiglitz (1999:1), views development as "a transformation of society, a movement from traditional relations, traditional ways of thinking, traditional methods of production,

to more modern ways" Stiglitz (1999) argues that a characteristic of traditional societies is the acceptance of the world as it is; the modern perspective recognizes change, it recognizes that we, as individuals and societies, can take actions that, for instance, reduce mortality, increase life spans, and increase productivity.

Other scholars such as Seers (1979) argue that the purpose of development is to reduce poverty, inequality, and unemployment. For Sen (1999), development involves reducing deprivation or broadening choice. Drawing on the above definitions development should, then, be viewed as a multi-dimensional process involving major changes in social structures, economic structures, popular attitudes and a national condition of life from unsatisfactory to satisfactory (Todaro 2000). In essence development is improving or the betterment of a particular entity through reorganization and reorientation (ibid). This therefore leads to varying development approaches wherein a particular aspect is improved at the expense of the other or assuming that improving one aspect improves the other or bettering various entities at the same time. This is considered in table 6 below. For example those who view development from an economic growth perspective argue that growth trickle down (Rostow 1960 cited by Todaro 2000); others such as Sen argue that economic growth and human development are mutually inclusive.

Development approaches have shifted focus from the 1950s to date. This is illustrated in the table 6 below. Table 6 also highlights that development takes place at various scales. It takes place at the international level as suggested by globalization, at the national level as implied by structuralist theories and at the local level as intimated by the grassroots approaches. Approaches to development have also influenced the work of various international organizations such as The World Bank, UN, UNDP, DANIDA, IMF and ILO. The later theorise (grassroots and neo liberalism) focus on the individual thus in the emergence of strategies such as LED, CBO's and civil society.

Table 6 below highlights the changing focus of development approaches form the 1950s to date. This however does not mean that the approaches are dichotomous but they merely maintain different aspects and focuses (Willis 2005). These various approaches to development have had effect in the way policies are formulated. For instance LED borrows from the grassroots approach to development wherein LED is supposed to be spearheaded by local actors.

**Table 6: Approaches to Development**

| <b>Decade</b> | <b>Main Development Approaches</b>  |
|---------------|---|
| 1950s         | <ul style="list-style-type: none"> <li>○ Modernization theories: all countries should follow the European Model wherein the focus is on increase of economic output, industrialization and urbanization(Rostow 1960)</li> <li>○ Structuralism Theories: Southern Countries need to limit interaction with the global economy to allow domestic economic growth (Martinusen 1975).</li> </ul>  |
| 1960s         | <ul style="list-style-type: none"> <li>○ Modernization theories</li> <li>○ Dependency Theories: Southern countries are poor because of exploitation by Northern Countries(Frank 1967)</li> </ul>  |
| 1970s         | <ul style="list-style-type: none"> <li>○ Dependency Theories</li> <li>○ Basic needs approaches: focus of government and aid polices should be on improving basic needs (clean air and water, food, housing, physical and emotional security and clothing) for the poor (World Bank).</li> <li>○ Neo -Malthusian theories: need to control economic growth, resource use and population growth to avoid economic and ecological disaster</li> <li>○ Women and Development: recognition of the ways in which development has differential effects on women and men</li> </ul> |
| 1980s         | <ul style="list-style-type: none"> <li>○ Neo-liberalism: focus on the market, government should create an enabling environment for economic activities:</li> <li>○ Grassroots approaches: Importance of considering local context and indigenous knowledge</li> <li>○ Sustainable Development: the need to balance current needs with future needs(Agenda 21)</li> <li>○ Gender and Development: greater awareness of how gender impacts development</li> </ul>   |
| 1990s         | <ul style="list-style-type: none"> <li>○ Neo liberalism</li> <li>○ Post Development: challenging the idea of development from the grassroots</li> <li>○ Sustainable development</li> <li>○ Culture and Development: increased awareness of how different social and cultural groups are affected by development</li> </ul>  |
| 2000s         | <ul style="list-style-type: none"> <li>○ Neo liberalism</li> <li>○ increased engagement with the concepts of globalization, sustainable development, post development and grassroots approaches</li> </ul>  |

Source: Adapted from Willis 2005

The above approaches to development have impacted on how poverty alleviation strategies are formulated. Some poverty alleviation strategies emphasize the need for economic growth thus they borrow from modernization theories and some emphasize that poverty alleviation projects should be sustainable in the sense that development “meets the needs of the present generation without compromising the ability of future generations to meet their own needs” (Sharhan 2000:44 cited by

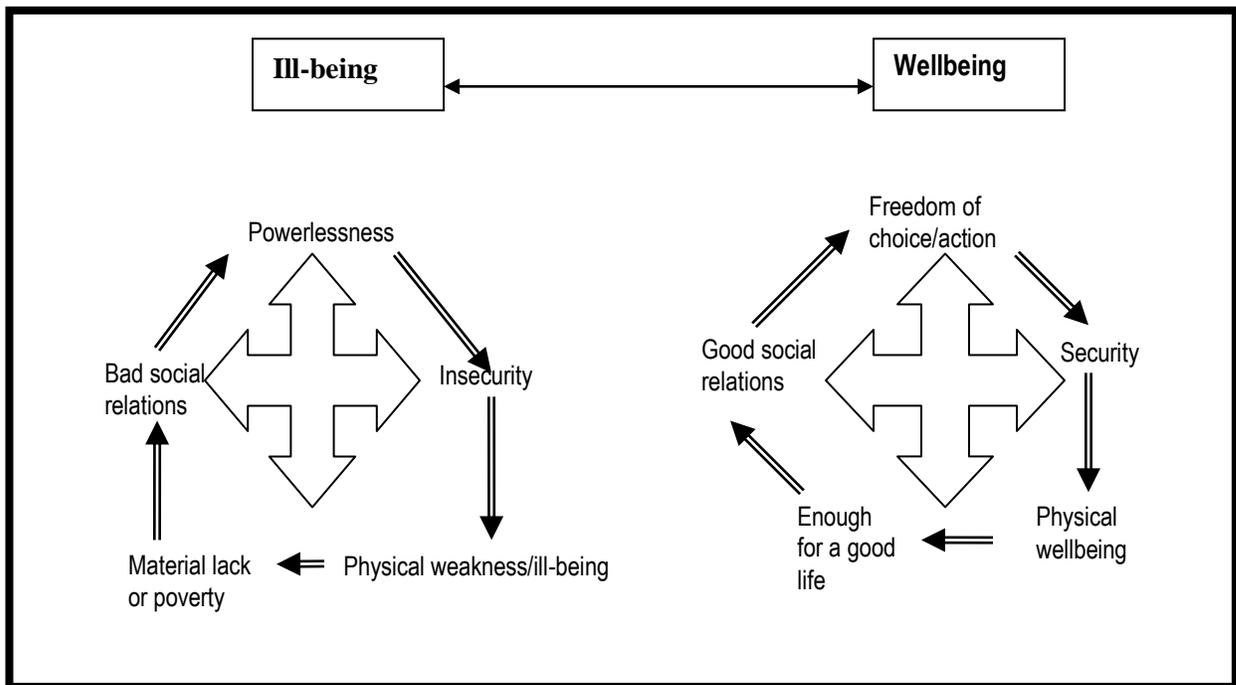
Willis 2005). Other scholars have been disappointed with the failure of development approaches thus they have gone further in coming up with post development approaches.

### **2.8.3 Debates on Poverty and Development.**

The poverty and development debate focuses on the well being of a person and identification of uneconomic growth. This was championed by (Mahbub ul Haq 1995 cited by UNDP 1995) who argues that, the basic purpose of development is to enlarge people's choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives. Mahbub ul debate on poverty and development has had a profound effect in defining or tackling poverty by the United Nations. This is evident in the Millennium development goals (MDG's). It has also been behind the work of the United Nations Development Program where its aim is "Human development", which is about growing human capabilities (Sen 1999). With human development economic growth is not the end but the means to seek something else, as Aristotle argued ancient Greece, "Wealth is evidently not the good we are seeking, for it is merely useful for the sake of something else."(Aristotle 1343a cited by Sen 1999).Champers (2006) goes to argue that development means good change from ill-being to well being which (see figure 6 on the next page).

From figure 6 on the next page, it is established that development brings about well being from ill-being. This well being is not only money metric but it includes items such as security, social relations and choice which may hamper or auger people in their fight against poverty. The concept of ill-being to wellbeing has been behind the LED strategies in South Africa wherein LED strategies are a vehicle of moving people form ill-being to wellbeing.

**Figure 6: Development as Good Change**



Source: Chambers 2006

### 2.8.4 Theories of Poverty

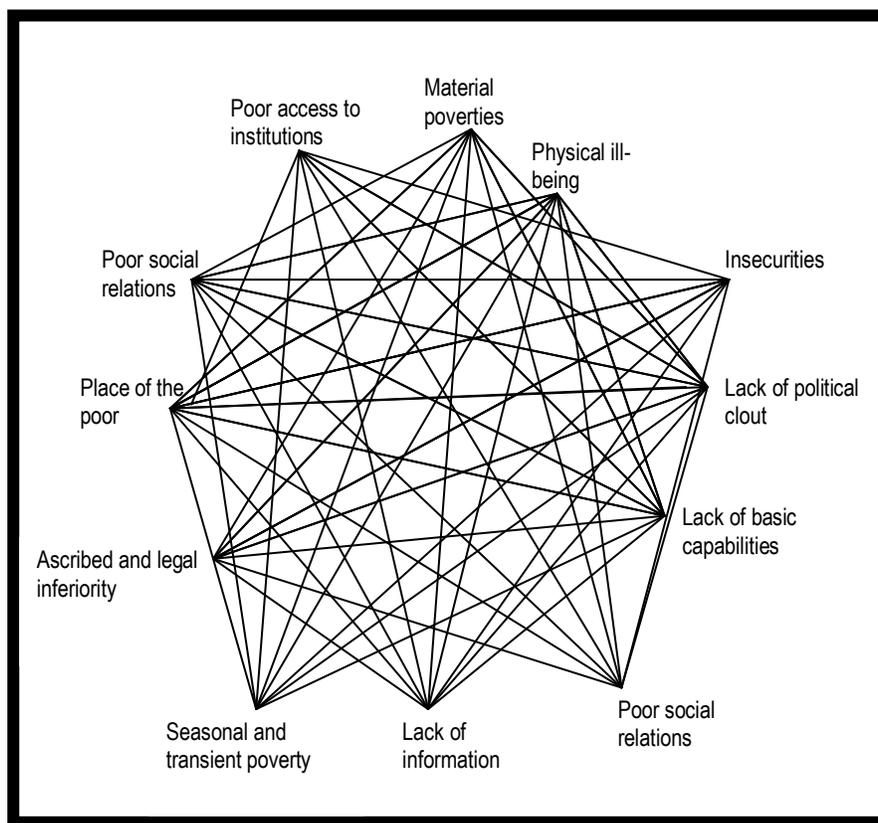
The theories of poverty are essential in explaining the cause of poverty, measuring poverty and shaping poverty alleviation. The theories determining the cause of poverty can be classified into four: namely; 1) transmitted poverty, 2) cultural belief systems that support culture of poverty, 3) mal-distribution of resources, 4) Structural class conflict (Pacione 2001). These causes are briefly discussed below

- **Cultural poverty**- this arises from what Pacione terms internal pathology of deviant groups or behaviour. For example among black in downtown Manhattan the youth have a culture of deviancy.
- **Transmitted poverty** (cycle of poverty)- This arises from an intricate web of handicaps which trap individuals and these are transmitted from generation to generation, thus there is a relationship between individuals, families and groups. This is intimated in the statement below:

*“Poverty (is) inherited. If you were born to a poor father, he cannot educate you and cannot give you any land, or very little land of poor quality; every generation gets poorer”. —Uganda 1998 pg 35 (World Bank 1999)*

The cycle of poverty also shows that there are various factors, which interact and reinforce poverty (see figure 7 below). It also shows that poverty has various dimensions, each one potentially having an impact on all of the others, and vice versa, thus emphasizing the interdependence of the dimensions of poverty and the multidimensionality poverty (UNDP 2006).

**Figure 7: The Web of Poverty Disadvantages**



Source: UNDP 2006

From the above figure the poverty disadvantages interact and entrench poverty. It becomes difficult to escape from poverty thus a multi pronged strategy which addressed all the poverty disadvantages is required (ibid).

- **Mal-distribution of resources**-This arises from an inequitable distribution of resources. It's also the relation between formal political machine and the poor.
- **Structural Class Conflict**-this arises from the division necessary to maintain an economic system based on profit thus one class might not be impressed by another class moving up the class ladder hence ways are sought to always oppress the poor.

There are other causes of poverty termed “entrenched” causes of poverty (Srinivas (2007)). These can be divided into six namely corruption, social inequality, environmental degradation, warfare, centralised power and colonial histories. Of these, colonial histories have had a huge impact through apartheid in South Africa. In South African history, apartheid laws defined a binary caste system that assigned different rights (or lack thereof) and social spaces to Whites and Blacks, using skin color to automatically determine the opportunities available to individuals in each group (Srinivas 2007).

### 2.8.5 Tools for Analysing poverty

Poverty can be analysed in various ways. There has been a shift from using income analysis to other forms of analyses which include asset based, capabilities, participatory, livelihoods and social exclusion which have become increasingly influential in recent years. These approaches have been actively pursued by international agencies such as UNDP (Capabilities), DFID (Livelihoods). These approaches are described below.

#### i. Asset Vulnerability Framework

*“If one does not own land, a house, household property, or domestic animals, then the person is considered to be poor”. —Uganda 1998 pg40 (World Bank 1999)*

The concept of vulnerability captures the insecurity faced by individuals, households and communities, the heterogeneity of the situations in which the poor find themselves and the dynamism of the situation over time (Moser 1998). Moser developed the asset vulnerability framework in the rural areas and adapted it to the urban context in her studies of urban areas in Ghana, Ecuador, Philippines and Poland. The asset vulnerability framework covers both ‘threats’

and the ability to 'resist' those threats, which is derived from the assets that individuals, households and communities possess and can mobilize during times of hardship. As assets increase, vulnerability decreases (Davies 1996; Moser 1996, 1997; Rakodi 1995; Swift 1989). Assets may be both tangible (productive, human and labour) and intangible (social capital and household relations) (Moser 1998). Vulnerability is also dependent on the capacity to manage assets, which Moser classifies into two; coping and adapting. Coping, involves a short-term immediate response to threats and adapting, which involves a permanent change in way of life. Assets such as labor, human capital, productive assets, households and social relations are crucial in coping and adapting to vulnerability. Diversifying and transforming assets into food and income may offset threats to a household. Coping and adapting to vulnerability is determined by a number of factors. Responses to vulnerability are shaped by, intra-household factors, household level factors and community level factors (ibid). Moser's analysis suggests that poverty alleviation strategies should encourage opportunities and remove obstacles to asset accumulation, management and productivity.

## ii. **Livelihood Approaches**

The livelihood approach to poverty is based on the work of (Chambers and Conway 1992). A livelihood comprises the capabilities, assets (stores, resources, claims and access) and activities required for a means of living: a livelihood is sustainable if it can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihoods opportunities for the next generation; which contribute net benefits to other livelihoods at the local and global levels and in the long and short term (Chambers and Conway 1992). The livelihood approach is plethora of strategies used by households to mobilise resources and opportunities. The livelihood approach has been used by various organizations such as UN, UNDP, CARE, SIDA, IFAID, World Bank and DANIDA in understanding poverty and in their various poverty alleviation strategies. The livelihoods approach is quite useful since it helps underline the dynamic causes of poverty, and shows various pathways to alleviate poverty, and encourages the poor to be decision makers (Holland and Blackburn, 1998). Nevertheless it is fraught with methodological problems such as identifying who the poor are.

### iii. Capabilities Approach (Human Development)

The capability approach advocates that development focuses on people's capabilities when making normative evaluations, such as those involved in poverty measurement, cost-benefit analysis, efficiency evaluations, social justice issues, development ethics, and inequality analysis (Sen 1995). The capabilities approach can be traced back to among others, Aristotle, Adam Smith, John Stuart Mill and Karl Marx but the approach in its present form is attributed to philosopher Amartya Sen (Sen 1999 and Sen 2002). Sen argues that capabilities are people's potential functioning's. Functioning's are beings and doings. Examples are being well fed, taking part in the community, being sheltered, relating to other people, and working on the labour market, caring for others, and being healthy. It can be used to evaluate a wide variety of aspects of people's well being, such as individual well-being, inequality and poverty (Sen 1999). The core characteristic of the capability approach is its focus on what people are effectively able to do and to be as implied in the statement below.

*"I'm old and I can't work, and therefore I am poor. Even my land is old and tired, so whatever little I manage to work does not give me enough harvest for me and my children". —Togo 1996 pg42 (World Bank 1999)*

The capabilities approach can be used to measure poverty and inequality as well as coming up with poverty alleviation strategies (Sen 1999). The premise of the capabilities approach with regards to poverty alleviation is that people's capabilities should be enlarged. It acknowledges that poverty is understood as capability-deprivation (ibid). It is noteworthy that the emphasis is not only on how human beings actually function but on their having the capability, which is a practical choice, to function in important ways if they so wish (ibid). Someone could be deprived of such capabilities in many ways, e.g. by ignorance, government oppression, lack of financial resources, or false consciousness (World Bank 1993). This approach contrasts with the common view that sees development purely in terms of GNP growth, and poverty purely as income-deprivation. It has been highly influential in development policy where it has provided foundations of the human development paradigm (Sen 1999). It has also shaped the evolution of the human development index HDI (UNDP 2000).

It has to be noted that the capabilities approach faces difficulties in measuring educational attainment since some data such as nutrition may not be readily available in developing countries (Townsend 2006). Townsend (2006) also argues that the capabilities approach reflects western concepts of the good life; hence there are doubts on its ability to be applied in the developing world.

#### **iv. Social Exclusion Approach**

Unlike the asset vulnerability framework and livelihoods approaches that focus on households, the social exclusion approach places emphasis on the wider structural processes that impact upon poverty. Social exclusion means individuals are cut-off from active engagement with dimensions considered normal in society (Atkinson 1998, Burchard et al 1999). Giddens (1998) goes on to argue that social exclusion is about mechanisms, which detach groups or people from the social mainstream as intimated in the statement below

*“Without these simple humane signs of solidarity, our lives would be unbearable”.*  
*—a poor woman, Ukraine 1996 pg35 (World Bank 1999)*

Therefore poverty means not being able to have and do the things that permit full participation in our society. Poverty and social exclusion cannot be solved in isolation. People in poverty find it hard to participate in society, because they lack resources to do so. Conversely, lack of participation exacerbates poverty, both directly (exclusion from paid work) and indirectly (exclusion from social networks enabling people to improve their lives) (Joseph Rowntree Foundation 2006). Ruggeri et al (2003) however argues that even though the social exclusion approach highlights the institutional causes of poverty it is difficult to interpret, hence its limited use in the developing world.

#### **v. The Participatory Approach**

The participatory approach aims at getting the people to participate in deciding what it means to be poor (Ruggeri et al 2003; World Bank 2003; Chambers 2002; Kristanjanson et al 2004). This approach has been championed by The World Bank in their county poverty assessments and FAO in assessing poverty dynamics in Kenya. The participatory approach avoids external standards and it solves problems from other approaches, for example the people define a basket of food and what they need for poverty alleviation (Ruggeri et al). With this approach people define the cause,

processes and outcomes of poverty, as they perceive them. Chambers (2002) therefore argues that with this approach it is the reality of the poor that counts not the researchers. It also assists in correct targeting of poverty alleviation strategies. In western Kenya the community realized that loss of livestock was the main cause of falling into poverty thus they improved veterinary services to avoid loss and they diversified their income sources. Nevertheless the participatory approach is time consuming, laborious, it usually produces shopping lists of needs and constraints and it seldomly addresses the underlying processes or dynamics of poverty (Kristanjanson et al 2004).

## **2.9 SUMMARY OF CHAPTER**

LED is defined as local people working together with other organizations such as local government, private sector, NGOs and other stakeholders for the development of the society. LED is an explicit or implicit poverty alleviation tool. The way LED alleviates poverty depends on one's approach to poverty. Poverty is mostly defined from an income point of view however this view is narrow; hence other scholars have embraced the multidimensionality of poverty. From a multidimensional perspective LED should therefore address issues such as basic needs, social exclusion, human development, assets and livelihoods since these issues underpin multidimensional poverty. One's approach to poverty has implications on the poverty alleviation strategy. There is often lack of overlap between poverty approaches, therefore targeting according to one poverty approach will involve serious targeting errors in relation to other types (Ruggeri et al 2003). Thus the multidimensional framework of poverty informs LED in that there is a need for a mix of LED strategies (CED, enterprise development and locality planning) in the fight against poverty. In fighting poverty there is need to measure the level of poverty through indices such as HDI and CDI since they acknowledge the multidimensionality of poverty. Indices of poverty assist in showing the trends of poverty and they also highlight the social, economic and political process that create and perpetuate poverty. From the chapter it is clear that definitions do matter, clearer and more transparent definitions of LED and poverty are an essential prerequisite of any development policy that puts poverty reduction at its centre (Ruggeri et al). In this regard, how the ABM in KwaMashu defines poverty impacts on the strategies adopted to alleviate poverty, for example there is high unemployment in KwaMashu, which entails coming up with labor-intensive projects and improving education and training so that the residents become employable.

# **CHAPTER THREE: INTERNATIONAL PERSPECTIVES ON LOCAL ECONOMIC DEVELOPMENT AND POVERTY**

## **3.0 INTRODUCTION**

This section discusses the current international debates and establishes the trends with regards to the LED poverty alleviation nexus. From the debates various case studies are described examining their strengths and weakness so as to identify best practices which can be replicated elsewhere. The international debate also centers on the relationship between economic growth and development, inequality on poverty alleviation, the impact of globalisation on LED and poverty. The following section considers why LED has been pursued in various countries.

## **3.1 WHY LOCAL ECONOMIC DEVELOPMENT**

Local economic development has been actively pursued due to its virtues. These virtues include promotion of sustainability, participation, poverty alleviation, competitiveness and decentralization (Canzanelli 2001). Nevertheless LED has not always produced the desired outcomes thus results have been mixed. Local economic development arises from the decline in faith of formal hierarchical institutions which respond less to the poor. This has given rise to the third sector in development, which places emphasis on to human development (Friedman 1992). Furthermore the fact that desired improvements do not often appear spontaneously is behind the emergence of Local economic development (Perry 2001). Hamdi and Goethert (1997:19) argue that 'orthodox' planning approaches are unrelated to the realities and pace of city life and transfer little or no immediate benefit to the majority of urban populations. Their rational management models sought 'predictable 'end states' which impose restrictions (rather than cultivate conditions), whose processes are normative, inflexible, and based on 'sacred prototypes' and preordained rules (ibid). This rational management displaces the flexible, spontaneous and incremental processes which are vital to the health of low-income communities. Orthodox planning aims for a functional and legible city when urban settlements are often organic and legible only to inhabitants (Scott 1998). The organic local action is often extra-legal in that it does not comply with official planning rules and regulations. This includes intricate and complex formal/informal partnerships developed for

recycling garbage, purchasing and exchanging commodities, and pirating services. In time, people build a substantial body of experience and knowledge which is rarely tapped when formulating plans, about how best to build, to profit, or dodge the authorities (Hamdi and Goethert 1997:12). The key issue for all planning approaches and development strategies is therefore how to capture the dynamism of informal processes without destroying them in the process.

LED has also emerged due to the failure of traditional development approaches that were top down (Pose 2001; ILO 2001). Traditional development approaches were usually supply side policies that emphasized infrastructure investment and attracting of foreign direct investment through offering location incentives. This was based on the premise that this would improve the economic status of the lagging areas. Nevertheless this did not always bring desired results. Empirical evidence also shows that failure rates are more than success rates (Pose 2001). For example in Italy, Mezzogorio in the 1960's and 1970's there was heavy investment in shipyards, refineries and car plants. Nevertheless this did not bring about the required industrial and economic output. Even after such investment the income gap between Northern Italy and Mezzogorio remained the same (Triglia 1992 cited by Pose 2001). Such investments also failed because of weak endogenous industrial rubric, inadequate local socio economic and institutional settings which hampered the formation of linkages and conditions necessary for sustainable economic growth (Pose 2001). The large investments were also detached from the local milieu as "cathedrals" in a desert whose suppliers and customers are located elsewhere (Pose 2001). Other reasons for the failure of traditional development approaches include deficient human resources, unbalanced policies which targeted one bottleneck based on the premise that all other bottlenecks will be solved, and the transplanting or replication of so called best practices without considering local context (ibid). For example Perroux's (1957) development pole theory was transplanted to centers in Spain, France and Latin America where it failed to yield dynamic and innovative effects (Roura 1994 cited by Pose 2001).

It is because of the failure of traditional approaches which has led to a rethinking and emergence of bottom up development policies termed LED (Stöhr 1990; Amin 2000 cited by Pose 2001). These development policies are the opposite of traditional development approaches (White and Gasser 2001). The characteristics which define LED are:

- Participation and social dialogue
- territorially based
- they entail mobilisation of local resources and competitive advantages
- and are locally managed and owned.

The difference between LED and Traditional approaches is summarised in the table below. LED differs with traditional development approaches. Unlike traditional development LED is decentralised and bottom up

**Table 7: Differences Between Traditional Development and LED**

| <b>Traditional Development policies</b>  | <b>Local Economic Development</b>  |
|--|--|
| i. Top down with decisions taken at the centre   | i. Bottom up with initiatives from below   |
| ii. Managed by central administration  | ii. Decentralised, vertical cooperation between different tiers of government and horizontal cooperation between public and private bodies             |
| iii. Sectoral approach   | iii. Territorial approach(Local milieu)  |
| iv. Development of large industrial projects to stimulate economic activity                        | iv. Maximise development potential of each are to stimulate a progressive adjustment of the local economic system to the changing economic environment |
| v. Financial support, incentives and subsidies as the main factor for attracting economic activity | v. Provision of key conditions for the development of economic activity  |

Source: Pose (2001)

LED strategies are structured on three development axes of economic hardware, software and “orgware” (Barquero 1999 cited by Pose 2001). Hardware development entails investment in infrastructure, software entails design and implementation of comprehensive LED strategies whilst orgware entails improving the organisational and institutional setup. Therefore one can say that LED is a balanced development policy since it improves hardware, software and orgware of a territory so that it can compete globally. Nevertheless LED has its own risks and disadvantages which include that it is time consuming and organising effort may be cumbersome. It may also lead

to unbalanced policies and the mere involvement of local authors does not guarantee success (Pose 2001).

However LED has got increased attention owing to the rapid urbanization in third world cities. The United Nations estimates that by the year 2025 close to half the people around the world will live in urban areas. Unprecedented urbanization in the third world requires a sustainable development strategy to improve the quality of urban management and foster an economically competitive environment (SACN 2006). Without a city development strategy there will be a decrease in welfare and quality of life for urban inhabitants (ibid). However, the high concentration of persons in cities suggests that with the proper approach to growth the benefits of development can be more widely dispersed of which LED is a key tool. LED is already in the current context through promoting work with the public, private, and non-profit sector to build strong, competitive and dynamic cities (World Bank 2005). According to the World Bank the LED strategic approach can assist local governments in pursuing good practices in building environments that are livable, competitive, well-governed ,managed, and bankable cities, hence the increased interest in LED.

LED is gaining importance due to decentralisation of national governments where resources are delegated to local authorities (Meyer -Stamer 2003). This is based on the premise that governance is easier at local level and that the issue of poverty alleviation through LED is best achieved at the local level (ibid). LED has been actively promoted since greater decentralization in recent years has increased the responsibility of municipal or local government in Africa. It is the aim of the Local Economic Development (LED) specialists in the urban development sector to assist local governments in determining the most effective strategy to increase jobs and revitalize their city's economy (ibid). Whereas urban development in the past included non-holistic approaches, such as infrastructure improvement and development control through master plans, the new urban agenda is now deepening to encompass a sustainable and self-regenerating approach that corrects market failure (ibid). Master plans failed in part because they ignored the importance of addressing economic growth and development, and/or have identified economic development as a sector, a department, or an activity, and not as an objective that should drive the policies and directions of the city as a whole (USAID undated). A city that addresses its economic base and identifies the role it can play to strengthen it, also changes the way it governs--who is involved in planning and

decision making, who leads what actions, and how success is judged (ibid). LED has therefore been pursued since it does not hamper development.

LED overcomes market failures, mainly because it generates trust, leads to match collective and individual interests, and reduces, after an initial period, production costs (Canzanelli 2001). It also galvanizes the population, mainly because it provides objectives and sense of purpose and it stimulates citizens to participation and entrepreneurial ventures (ibid). LED is effective in promoting rural urban linkages, thus it is applicable not only in urban areas but also in peri-urban and rural areas (World Bank 2005). LED has been actively pursued since it helps in enhancing the competitiveness of an area.

LED is crucial in improving competitiveness upon which the success of communities will depend on their ability to adapt to the changing and increasingly competitive environment (Castells 1998). At the international level the drivers of this change include economic, technological and political pressures. At the national level these pressures include widespread privatization of whole industries and decentralization of government services. Through LED which planning policy can enhance the competitiveness or the comparative advantage of an area by embedding economic activity based on local resources in that territory so that it can compete globally (Pose 2001).

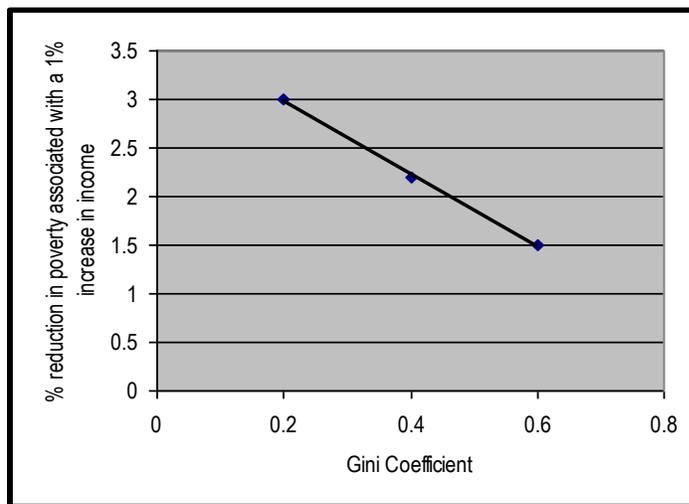
### **3.2. ECONOMIC GROWTH, INEQUALITY AND POVERTY ALLEVIATION**

The economic growth, inequality and poverty alleviation nexus has been debated by scholars such as Rostow (1960), Peroux (1995), Myrdal (1950), Hirschman (1958) and more recently Bartik (1997), Sen (1999) and Nadvi (1999). This nexus has also been the focus on the work of organizations such as UN, UNDP, World Bank, IMF, ILO, and ADB among others. These organizations tackle the nexus at an international, national scale and at a meso scale wherein municipalities are taking an active role in the nexus.

Economic growth is a necessary condition for poverty alleviation; this view is widely if not universally shared (GHK Research and Training 2001). The World Bank (2000) argues that as countries become richer, on average the incidence of income poverty falls. Other indicators of well-being, such as average levels of education and health, tend to improve as well. Thus there is an

inverse relationship between poverty and economic growth, wherein economic growth impacts poverty and poverty impacts on economic growth; however this relationship is complex (Ravallion and Chen 1977). In Europe there was rapid economic growth in the 19<sup>th</sup> century and currently there is rapid economic growth in China and East Asia with dramatic consequences (World Bank 200). The World Bank argues that the higher the annual growth in GDP, the greater the poverty reduction. For example in East Asian countries like China which have witnessed high economic growth coupled with a reduction of the incidence of poverty. Evidence has shown that economic growth can lead to rising consumption amongst the poorest fifth of the world's population (ibid). Rapid economic growth improves none income poverty such as better health access. However the relationship of economic growth and poverty alleviation is not that simple since countries with the same growth rates may have different poverty reduction rates thus there is need to understand the underlying dynamics for successful poverty alleviation (Ravallion and Chen 1977). How quickly growth can reduce poverty depends on the initial income distribution (inequality) and how it evolves over time (Lusting et al 2002). In societies with more inequality the same growth rate makes far less of a dent in poverty as illustrated in figure 8 below.

**Figure 8: Growth, Inequality and Poverty Reduction**



Source: Adapted from World Bank (2000); Lustig et al (2000)

The above graph shows that countries with a Gini coefficient of around 0.6 growth reduces poverty only half as quickly as in countries with a Gini coefficient of about 0.2. The efficiency of economic growth in reducing poverty also depends on how the income distribution shifts as the economy

grows (Lusting et al 2002; Ravallion and Chen 1997; World Bank 2000). For example in one case the economy grows with earnings of the top income quintile rising only, in the second case everyone's income increased proportionally and thirdly only the bottom quintile income rose. In the first case there would be no poverty reduction and in the third case there will be greater poverty reduction (Lusting et al 2002). In Uganda after decades of war and economic collapse there was rapid economic growth in the 1990's averaging 5% per year. Between 1991 and 1998 the share of Ugandans living on less than \$1US fell from 56% to 44%. The reduction in income inequality made growth effective in reducing poverty with the Gini Coefficient falling from 0.36 to 0.34 during the period 1995-1998 (Appleton et al 1999 cited by Lustig et al 2002).

In Bangladesh on the other hand GDP per capita grew by 2% during the 1990's and poverty declined slowly. The answer to the slow poverty reduction in Bangladesh partially lies in the rise in the Gini coefficient which rose from 0.26 to 0.31 between 1992 to 1996 (ibid). Parallels of Bangladesh may also be drawn with South Africa. Despite South Africa's relative success in terms of macroeconomic stability South Africa's policies fail to create sufficient growth, job creation and poverty reduction (May 2004). This may be partly explained in South Africa's high and persistent inequality which at times is costly for development and has trapped large numbers of its citizenry in poverty. However this does not imply that growth should not be pursued but other efforts need to be undertaken to ensure that growth reaches the poor (World Bank 2000; Wodon 1997; Appleton et al 1999 cited by Lustig et al 2002). This may include a reform emphasizing micro reforms to increase the economic prospects of the poor (May 2004). It has been observed that inequality impacts on poverty and growth however the causal relationship is not that clear (Lustig et al 2002).

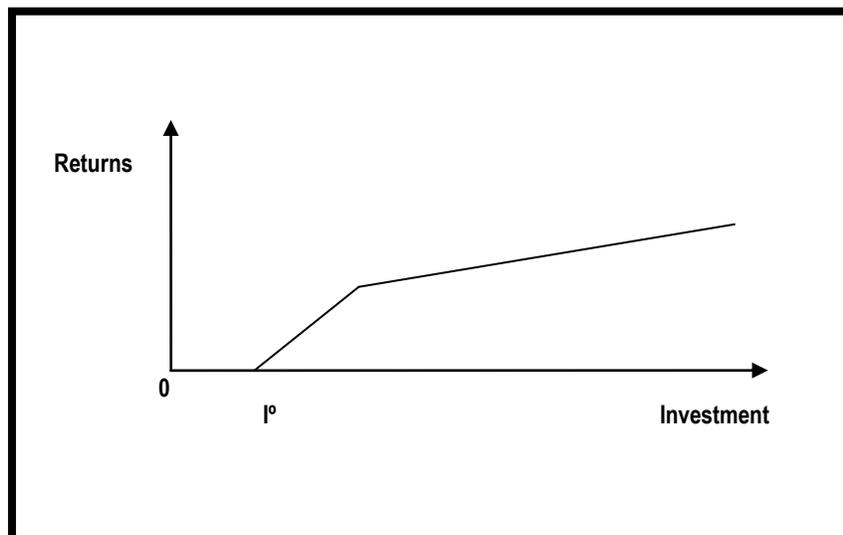
Scholars such as (Alesina and Rodrick 1994 cited by Lustig et al 2002), Dollar and Kraay 2000 and Foster and Szekely 2001 cited by Lustig et al 2002) have come up with ways of showing how economic growth benefits the poor. These include using estimates of the incidence of poverty with respect to growth using regression lines. These approaches have been criticized since they are arbitrary in setting the poverty line (Ravallion and Chen 1977). Thus there is a challenge in identifying the relation between economic growth and poverty reduction though a growing body of literature supports that inequality hampers growth. However empirical evidence is inconclusive

(Lustig et al 2002). In summary economic growth is key in poverty reduction and conversely poverty alleviation is necessary for economic growth.

### 3.3 POVERTY REDUCTION AND ECONOMIC GROWTH

Poverty has been known to hamper development thus there has been a growing body of scholars (Sen 1999; Lustig et al 2002; Ravallion and Chen 1977) who argue that poverty needs to be addressed first so that economic growth can be boosted. These scholars also argue that economic growth should not view people as ends but rather as means of growth. Thus there should be investment in people to drive economic growth (Sen 1999; World Bank 2000). This investment should be in the form of improving credit access to the poor, human capital investment, promoting innovation and securing insurance, promoting social cohesion, reducing market imperfections and reducing adverse shocks (Lustig et al 2002; Ravallion and Chen 1977 World Bank 2000). The graph below illustrates that a certain level of investment is crucial for growth. From figure 9 prior to a minimum level  $I^0$  the return on investment is zero, the investment begins to yield a return only after this threshold is crossed (Lustig et al 2002). Thus with regard to economic growth there needs to be a certain minimum investment in the people for there to be successful poverty reduction.

**Figure 9: Impact of Investment on Returns**



Source: Ravallion and Chen (2000)

The poor often have low income levels thus they are unable save and are always at the mercy of lending institutions (Lustig et al 2002). Moreover they often rely on unsustainable, inefficient and informal financial institutions (Besley et al 1994 cited by Lustig et al 2002). The poor also face obstacles when borrowing money; and are usually charged high transaction costs and high interest rates since they are considered a risk (De Soto 2000 cited by Lustig et al 2002). Moreover the poor are often unable to produce acceptable security when borrowing. All this hampers their ability to borrow money, improve productivity and foster economic growth. It is therefore crucial to foster financial institutions and services that serve the poor so as to aid economic growth (Lustig et al 2002). This may include relaxing the financial regulatory frameworks and fostering institutions that equip the poor to build savings and borrow money. land reform; making tenure secure for the poor will also improve the Poor's access to credit and making the market work for the poor will aid the fight against poverty (ibid).

However, it is not self evident that private markets will reduce poverty (Cook et al 2003 cited by World Bank 2000). Indeed, they may exacerbate it, even where economic growth raises all incomes over time as private markets expand, the time period may be very lengthy indeed and the distribution of benefits may be very uneven (ibid). An important goal of the state should be regulation of markets, for successful poverty reduction. Making markets work is necessary but not sufficient hence markets need to be made better for the poor for successful poverty alleviation. Thus there should be greater fairness, with adequate supplementation in the markets (Sen 1999). A better or working market should reduce transaction costs, expand choices for the poor, and should be monitored over time (Porteous 2004; Sen 1999). A case in example is the Cell Phone Industry in South Africa where there has been wide spread growth of cell phone usage in South Africa, from a zero base in 1993 to over 10 million users in 2003 (Porteous 2004). The usage levels are well in excess of original projections and continue to grow, especially among poorer segments of the population (ibid). The cell phone industry has been almost entirely market driven, with low levels of state access regulation, and yet a successful access outcome. This is contrasted with the costly and largely unsuccessful fixed line roll out to poorer households of the main state owned operator, Telkom (Porteous 2004). Cell phones appear to be a market that is working for the poor in terms of the definition suggested above (ibid). The advantages of owning a cell phone include

being connected to labor market which is crucial in increasing income. Apart from making markets work human capital needs to be developed to foster economic growth and poverty alleviation.

Human capital broadly refers to people's educational attainment, health and nutrition (Sen 1999; Lustig et al 2002; World Bank 2000). There is growing evidence from micro economic studies that associate better education with higher income (Schultz's 1998 cited by Lustig et al 2002). Education may also generate other externalities which propel growth (Wolfe and Zuvekas cited by Lustig et al 2002). For example how well a mother is educated is crucial for her children's learning. Nutrition on the other hand impacts on the level of productivity. Poorly nourished workers may be less productive, and persistent malnutrition may push production down (Dasgupta and Ray 1996; Ravallion 1997).

Investing in education may not be a priority to the poor as opposed to using young people to work in the fields (ILO 1998). Investment in education is also unattractive to the poor since returns are highly converse given the fact that returns are most attractive at higher levels of schooling (ibid). For example in Mexico finishing university raises household income by 62%, while a primary school diploma the increase is only 8 % ( Bouillon et al 2001). Thus families may tend to invest less in education but this has adverse consequences on income potential. Malnutrition also impacts on education attainment since it has been observed undernourished children have weaker cognitive skills (Alderman and Hoddinott 2001 cited by Lustig et al 2002).

To improve economic growth, it is crucial to invest in the health and education of the poor. Health interventions may include public spending on infrastructure and service improvements in service and quality. Basic infrastructure investment (running water, electricity and transportation) and early intervention programs in health and nutrition are key in promoting human capital. From the above arguments it is clear that there is need to foster human development since it propels economic growth. Besides human capital, growth may be stalled by constraints in innovation and failure to secure insurance.

The adoption of new technology by the poor is influenced by human capital and the possibilities for obtaining insurance (Dasgupta 1993). The lack of insurance is an impediment in coming up with

new innovations, or technologies since the poor are unlikely to secure insurance. For example using a seed variety may raise output, however it increases risk of loss in the event of bad weather or market fluctuations, thus one would rather stick to old methods (Dasgupta 1993). Since insurance is difficult to obtain for the poor they often seek other alternatives such as deaccumulation of buffer stocks, borrowing and other informal insurance schemes (Udry 1995; Deaton 1989 cited by Lustig et al 2002). These types of alternatives are usually less efficient than formal ones, for example selling livestock jeopardizes future production (Rosenzweig and Wolpin 1993 cited by Lustig et al 2002). To ameliorate lack of insurance and to promote innovation the insurance industry needs to be pro-poor wherein the regulatory framework needs to be relaxed. Safety nets need also be established so that minimum levels of consumption are maintained (Lustig et al 2002). The government may also support ideas from the people with potential of raising production by providing financial assistance, and establishing a culture of research and development. Apart from the above making sure that poverty does not deepen during crisis is crucial.

Poverty in a nation should not be allowed to worsen during adverse situations since this may also hamper growth. Shocks such as economic crisis, natural disasters, and wars may exacerbate poverty and stall growth (Inter-American Development Bank IDB 2002). There is evidence that social indicators such as infant mortality and educational attainment tend to deteriorate during times of upheaval (ibid). Countries must therefore put in place tools that cushion further deterioration of human capital development of the poor. These may be in the form of protecting pro-poor public spending during structural adjustment. Other alternatives may include emergency employment programs which at least try to maintain the current status rather than further deterioration which may hamper growth (Wooden et al 2000).

Growth may be dampened by social and political relationships. For instance in areas where the people have no say in the political process poverty may instigate social upheaval coupled with violence which impedes growth (Lustig et al 2002). Poverty concentration in certain geographic areas, ethnic, racial or by gender factors can take an economic toll on the wider society and retard a country's' economic growth (ibid). Poverty also breeds with it frustration which can ignite

dysfunctional behavior and social ills such as crime, alcoholism, drug addiction, domestic violence which can trap the poor and also bring about high economic costs (World Bank 2000).

Recent theory has identified links between poverty, social instability and growth (Lustig et al 2002). For example if there is low per capita income, pressure from social groups may prompt the government to implement redistribution policies, political practices such as inefficient tax systems, unproductive spending, corruption and lobbying which weaken incentives for capital accumulation and stall growth (Benhabib and Rustichini 1996 cited by Lustig et al 2002). In South Africa's policies after apartheid such as RDP, URP, where as a result from the pressure to correct the imbalances of the apartheid regime (Godehart 2006).

Social exclusion coupled with income inequality may lead to discrimination of the poor thus by their exclusion they are prevented from exploiting factors of production (Lustig et al 2002). Social exclusion is often fueled by deep ethnic divisions that can thwart macroeconomic stability and growth policies (Easterly and Levine 1997). The socially excluded usually lack human capital development and can push down a nation's growths potential, while residential segregation may trap the children of the poor at low education levels due to lack of funding and absence of role models. This may lead to perpetuation of poverty and low growth traps (Benabou 1994). Social exclusion, ills and instability should be improved so as to enable growth.

Poverty reduction programs can be targeted in certain geographic areas which are socially excluded since they yield externalities that affect national growth (Ravallion and Jalan 1996). For example, 'beefing up' community capital can enhance returns on private investments and improvement in school quality boosts returns to education and income (ibid). Investing in public infrastructure in polarized areas can also improve returns on investments particularly if the beneficiary population is involved in investment initiatives (Adato et al 1999). Solving the issue of crime and violence in marginalized areas can indirectly spur growth by preventing investment-dampening; political and social instability; and thereby avoiding high economic cost of upheaval (Londono and Guerrero 2000). Solving social ills such as crime may also attract potential investors to an area since the place image would have improved (Lustig et al 2002). In Latin America the impact of poverty, social exclusion, ills and instability on growth has been well

documented. Recent estimates cost of violence and crime in Latin America comes to one-tenth of the regional GDP while the early unwanted pregnancy has a negative impact on the socioeconomic status of single mothers, cutting short their schooling leaving them with fewer job prospects and increasing their demand for public assistance programs (Londono and Guerrero 2000). Parallels of this can be drawn to the South African scenario with regards to the Social Grant given to single mothers.

In conclusion it is clear that poverty coupled with associated social ills and social instability stalls economic growth. Low investment in human capital, innovation and technology, insurance and capital continually trap the poor in poverty thereby impeding growth. It is therefore necessary to reduce poverty so as to boost economic growth since the two are mutually reinforcing (Sen 1999). For example when promoting LED it is necessary to improve the underlying conditions for example education and health since they improve production and ultimately growth. Promoting economic growth per se, may not necessarily lead to poverty alleviation since the growth may be undermined by low productivity due to malnutrition or violence, thus it becomes necessary to improve the conditions of poverty to maximize growth.

### **3.4 POVERTY ALLEVIATION AT MUNICIPAL LEVEL THROUGH LED**

The previous section on the economic growth poverty and alleviation nexus focused on the relationship between poverty alleviation and economic growth at an international and national scale. This section however explores how poverty alleviation is achieved at local level through LED generally. Municipal level approaches function at meso level, they strengthen and complement poverty alleviation strategies at the national and micro level strategies usually spearheaded by the community promoted by NGO's and CBO's (Vanderschueren et al 1996 ). At meso level the poverty alleviation strategies are based on inter alia, municipal level responsibilities for the provision and coordination of local services for the facilitation of community poverty initiatives (Weglin 1996). It is argued that municipalities are strategically well placed to engage in poverty alleviation in partnerships with NGO's, CBO's and the private sector (Vanderschueren et al 1996). Moreover it is the function of local governments to generate and manage local projects whose aim is to address poverty and inequality as they are the key authority acting in the public interest

(Rogerson 1999). The local authorities are rightly placed in enabling the poverty alleviation process since the particular poverty alleviation programs take place within a certain jurisdiction or locality which falls under a certain municipality.

Local authorities can undertake poverty alleviation through five interventions namely: regulatory frameworks, access to municipal services, employment creation, security and protection, coordination and integration (Vanderschueren et al 1996; Rogerson 1999). It has to be noted however that these inventions do not operate in isolation but they overlap. The various interventions are discussed below.

### **3.4.1 Regulatory Framework**

The regulatory framework sets the framework and tone for development at local level (Weglin and Borgman 1995). This framework consists of a number of laws which may comprise ordinances, legislation, town planning laws, public health laws and building and land development control (Vanderschueren et al 1996). Experience suggests that across the developing world the municipal laws tend to reflect past colonial legacies and tend to stifle development (ibid). The regulatory framework usually prescribes high building standards which are often non functional and are a harassment to the poor (Weglin and Borgman 1995). It is therefore important to change the regulatory framework so that it reflects the reality of the given society (ibid). This may include a regulatory framework which is less prescriptive and proscriptive to one which is more flexible, simple and transparent in terms of implementation (Rogerson 1999; Weglin and Borgman 1995). The change in regulatory framework can assist in strengthening the asset base of the poor through improved land management, shelter and urban agriculture (Moser 1998). It is important given that the land market is often distorted and dysfunctional for the poor thereby impeding access to secure tenure. The land market can be made efficient by the minimizing the administration requirement, regularization of tenure and simplification of the land registry process (Weglin and Borgman 1995).

Shelter is another aspect which may improve the welfare of the poor since housing improves their asset base (World Bank 1990). The local authority can also be an important vehicle in this regard

through, setting a regulatory framework that supplies land for development, that relaxes building and planning regulations to ensure that shelter is provided. By making shelter available, other externalities may be realized, since a house is much more than four walls, but it may be used as a unit of economic production (UN HABITAT 1990; World Bank 1990). Economic activities which may take place within a house include informal enterprises such as, general trading, which is an important survival strategy (Nadvi 1999; Rakodi 1997; UN HABITAT 1990; World Bank 1990). The local government in conjunction with the state may invest in low income housing which may have multiplier effects (Rakodi 1997; UN HABITAT 1990; World Bank 1990). For example in Hong Kong the state in conjunction with the local authorities and various stakeholders pursued an aggressive housing investment program. This program stimulated the economy since various contractors were used which created employment for the citizenry (UN HABITAT 2005). Besides changing the regulatory framework for shelter, laws which acknowledge the importance of urban agriculture are crucial in the fight against poverty. Urban agriculture can also be used as a livelihood coping strategy, since it can provide a source of income when produce is sold and it also improves nutrition of the urban households (Freeman 1991; Rogerson 1992; UNDP 1996). Land use laws may incorporate urban agriculture as part of broader land use management (Rogerson 1999). Apart from improving the regulatory framework access to municipal services needs to improve to become pro poor.

### **3.4.2 Access to Municipal Services**

Access to municipal services (water, sanitation, refuse collection, road network, public transport and street lighting) is key to improving the asset base of the poor, livelihood strategies and human capabilities of the poor (World Bank 2003). The poor usually have limited access to services, which is exacerbated by the design and standards of the services which may exclude the poor, due to un-affordability and rigidity of the service structures which do not allow for incremental changes to accommodate the poor (Rogerson 1995).

In terms of water reticulation the poor pay more due to the associated costs since they normally have less access to quality water (Goldbluff 1997 cited in Rogerson 1995). For example in Inanda (Durban) the houses are located in hilly areas which increase the pumping costs of water. Water

access could be improved by involving the community in planning and maintenance of the water system so that their needs are met (ibid). Allowing for incremental changes is also crucial in improving access. For example in Hatcliff extension Harare Zimbabwe the informal settlement was upgraded by coming up with a local plan wherein the water reticulation system was laid down (City of Harare 1999). Water improves the hygiene thereby improving the people's choices since it is widely argued that water is life.

Sanitation and solid waste management are also key in poverty alleviation. Sanitation entails the safe collection and disposal of wastewater. This may be done through septic tanks and use of sewerage pipes. By improving the waste water collection system the capabilities of residents is enhanced since there is reduced risk to disease such as diarrhea, thus residents may engage in production. Sanitation services, especially for the poor may be improved by the local authorities through use of low-cost technologies such as condominal sewers, legalizing land tenure and finding innovative ways to provide services to those without land titles (UNDP 2000). Sanitation may aid poverty alleviation with the local authority adopting a more demand driven approach, with less government intervention but more community action (Stren and Gombay 1998 cited in Rogerson 1995). The system can be redesigned to incorporate the informal sector in waste collection where traders are paid by the local authority for waste collected, as has been the experience in Latin America in Rio de Janeiro (Brazil) (Guerrero 1996). In Durban informal traders collect solid waste and sell it to various designated Durban Solid Waste points such as the Land refill site in Marianhill (eThekweni municipality 2007). This initiative has proved an important source of income and a useful household coping strategy.

### **3.4.3 Transport**

Issues on transport at local level centre on, access, cost and provision of transport (Vanderschueren et al 1996). Transport systems may be improved so as to aid economic growth and reduce poverty. A number of initiatives may be undertaken by a local authority. These include improved public sector management (road agency reforms, road funds, contracting out), privatization (railways, ports and toll roads), market liberalization (public transport, trucking), together with conventional transport system improvements (road upgrading, vehicle emission

controls, traffic demand management) which have reduced resource costs, lowered delivered inputs and product prices, expanded service availability, accessibility and lowered public sector deficits(World Bank 2000). Contracting out especially to SME's may help grow local business provide employment and thus providing income to the residents. Maintaining the road network and management can also aid in attracting outside investment.

Transport related initiatives need to be coordinated with the central government. If transport interventions are to be more effective in poverty reduction, more knowledge on the transport linkages, barriers, and secondary effects that impinge upon the poor is necessary (World Bank 2000). Given the extensive nature of transport, a key issue is how and where to set priorities for interventions, within the sector and across sectors. Transport is an intermediate service - a means to an end. Its impacts may be direct (tarring roads provides all weather basic access for a worker from a town center to his residence) or indirect (privatization of a port and trade facilitation lower container movement costs, increase international competitiveness) .The city of Durban in this regard identified that the Durban harbor needs continuous enhancement to meet global demands (Ethekwini Municipal Report 2006/7). More direct strategic approaches to the role of transport can be developed by taking into account the intermediate function of transport and its role as a complementary input in the delivery of "outcomes" through other sectors (for example health, education and employment/income earning opportunities) (World Bank 2000). The World Bank further reiterates that this complementary role of transport needs to be highlighted, for not only may transport be a "bottleneck" (a major constraint in the achievement of improved social dimensions of poverty) but its impact may also depend crucially on other complementary inputs. For example, an accessible transport system ensures easy access to health centers, schools thereby enhancing people's capabilities.

Other alternatives which are pro-poor include promoting use of non motorized transport such as bicycles. The use bicycle is gaining popularity in a number of countries (Vanderschueren et al 1996). Use of bicycles would reduce environmental problems and increase the mobility of the urban poor (Weglin and Borgman1995). Weglin and Borgman pointed out that the major constraints, unfortunately, on greater bicycle use include unsafe operating conditions, the view of backwardness and high prices relative to income. Therefore municipalities should acknowledge,

support and regulate these forms of transport after negotiations with users, drivers and owners both in the interests of cheap, safe and convenient public transport for short distances, and in the interests of low-income employment creation.

#### **3.4.4 Primary Health Care and Education**

Primary health care, education and vocational training strengthen the human capital and hence the long term productivity and incomes (Sen 1999). The urban poor lack access because primary health care is seen in most countries as an extension of the national healthcare system rather than as a municipal service (Weglin and Borgman 1995). Weglin and Borgman argue that municipalities need to stimulate the provision of appropriate primary health care targeted towards the low-income (slum) neighborhoods. This may include coordination and even redirection of NGO's or other donor activities; direct provision of clinics, personnel, medicines and equipment. The local authority can also engage in health information awareness campaigns and emphasizing preventative measures. In Durban the Chamber of Commerce, Durban Solid Waste and Ethekewini municipality have joined forces in HIV/AIDS awareness campaigns (Ethekewini Municipality 2003).

Primary education has not been targeted at low-income (slum) neighborhoods and has generally not been well integrated within municipal services (Weglin and Borgman 1995). Weglin and Borgman argue that municipal investment in education should target primary schools, the quality of teachers, equipment and environment. These investments should be integrated with the provision of other services such as health services and micro-infrastructure in poor neighborhoods. In the developed world, education is a key driver for economic growth for example the Massachusetts economy revolves around the Massachusetts Institute of Technology (MIT). In Massachusetts the companies founded by MIT graduates formed an independent nation, the revenues produced by the companies would make that nation the 24th largest economy in the world (EDA 2006). The EDA also reiterates that the 4,000 MIT-related companies employ 1.1 million people and have annual world sales of \$232 billion. The 1,065 MIT-related firms headquartered in Massachusetts employ 353,000 people worldwide and 125,000 people in the state. They generate worldwide sales of \$53 billion. These companies represent five percent of total state employment and 10 percent of the state's economic base. MIT-related firms account for about 25 percent of sales of all

manufacturing firms in the state and 33 percent of all software sales. From the MIT case it emerges that education can be an important driver of economic development.

### **3.4.5 Employment Creation**

The greatest asset of the poor is their capacity for labor (Moser 1996); therefore provision of employment is an important vehicle for poverty alleviation. Coupled with this is the need for municipalities to support survivalist informal economy (including a range of home based firms and micro enterprises) (Rogerson 1999). Of particular need for employment are unemployed youths, female headed households and street children. Support for the informal sector may be direct or indirect. Direct support involves improving the built environment for the facilitation of small business hives, incubators, nurseries, making available premises for use by local entrepreneurs for information provision, and direct support for business startups (Vanderschueren et al 1996). In Durban the Warwick Avenue is an example of an informal business node promoted by the municipality (Khosa and Naidoo 1998 cited in Rogerson 1999). Indirect support involves providing regulatory framework conducive for SME's. The municipality can also play an important role in linking the informal sector with the formal sector (Rogerson 1999).

Apart from the above municipalities may also play an important role in providing security and protection from crime and natural disasters in coordination with the central government. Coordination may be through policies which facilitate the coordination of different national ministries that address resources to local initiatives, thereby avoiding duplications and harmonizing the use of funds (Canzanelli 2001). Coordination can be made effective by putting in place a monitoring and evaluation system.

The Municipalities also play an important role in monitoring and coordination of development projects. National and local governments, together with other public and private stakeholders, may establish a committee for monitoring the different LED initiatives, for establishing a unique evaluating and measuring mechanism, which is at the base for successive national support. The monitoring activity should assess the sustainability, the impact, the efficiency and the effectiveness

of LED projects (Canzanelli 2001). This may be done by creating a poverty profile of the area which could assist in formulating appropriate LED interventions.

There is growing interest on poverty alleviation at local level through the promotion of LED. However success stories are limited but the global trend towards decentralization which shifts both authority and responsibility for social policy development and implementation onto local governments is gaining increased interest (Weglin and Borgman 1995). It is therefore necessary to discuss the impact of globalization on LED and poverty.

### **3.5 LED AND GLOBALIZATION**

According to (Castells 1998) globalization refers to ideas and processes that operate at an international level, it is associated with the re-emergence of liberal economics and social thought that focus on the individual and the economic market. Pose (2001 ) points out that globalization is the increased interaction of national economies which has seen growth in Foreign Direct Investment (FDI) five fold , expansion of world trade and a move away from import substitution to free markets. The way globalization shapes LED is two pronged. Globalization shapes local dynamics which in turn shape global dynamics thus the emergence of the term “glocalisation” (Castells 1998). Thus globalisation and LED are complementary. The two processes are, indeed, interrelated: decentralisation can improve the international exchanges because it strengthens the local capacities, rendering them more productive and more competitive, and liberating. Globalisation reinforces decentralisation, because it provides opportunities for improving the local capacities, enabling exchanges and spread of practices, learned lessons, technologies, and methodologies; and it may also stimulate innovative ideas for new products or processes, or for the adaptation of existing ones to the local conditions (Canzanelli 2001). This relationship has created a new economy.

Globalization has created a new global economy with labor as the base of increasing productivity and competitiveness (Robinson 2002; Castells 1998). This new economy is based on three characteristics namely: increased productivity and competitiveness; a global economy with technological, organizational and institutional capacity. Increased productivity and competitiveness is based on knowledge and information (Castells 1998). The global economy does not imply a

single global economic system since in terms of labor it operates at local, regional and international markets (ibid). This market is unique in that it is able to work as a unit in real time on a planetary scale. Castells reiterates that technological capacity refers to structuring the whole planet on telecoms and information systems; organizational capacity entails how firms network to be active in the market. Institutional capacity refers to deregulation and liberalization which opens up the possibility to operate globally (ibid). The challenge in this new economy is how cities may engage in economic development strategies which tap into globalization. Thus cities have become important locations for coordination and management of dispersed global activities (Storper 1997 cited in Robinson 2002). The city of Jakarta is a classic example of a city which strongly pushed for global status between 1989 and 1996 (Robinson 2002). Globalization poses a challenge of balancing development strategies which focus on globalization with local strategies to alleviate poverty (Robinson 2002; Castells 1998). The section below discusses the impact of globalization on poverty and inequality.

### **3.5.1 Globalization, Poverty and Inequality**

The new global economy produces winners and losers, apart from being extraordinarily productive and competitive it is also extraordinarily exclusionary, through the process of networking and segmentation (Castells 1998). Globalisation has seen macro economic stability, reduced inflation and fiscal debts and superior economic performance especially in the developed world (Coe et al 1997 cited by Pose 2001). On the flipside (with the exception of China, Ireland and India) globalisation has not been accompanied by economic growth (ibid). In Latin America growth in the 1990's was slower than the 1980's, and the Asian crisis put a dent on the economic performance of South East Asia. Globalization increases the vulnerability of developing countries to shocks since they are unable to cope, compete with hi-tech goods and cheaper products from the global economy (Pose 2001). Globalization improves living standards however, it has maintained polarization. According to the UNDP cited by Castells, polarization in this era of globalization has worsened with the richer getting richer and the poor poorer. For example in Germany during the 1990's child poverty increased by 125% and in the USA 20% of the children are in poverty despite these countries having important global cities such as New York and Munich. In this era of globalization, only income poverty has been reduced substantially across the world (UNDP cited by Castells). However the UNDP points out that income poverty has been rising since in the 1990's,

when 50% of the world's population lived on less than US\$2 a day. The figure used to be 45% during the 1980's. Furthermore, inequality has increased in both the developed and developing nations since globalisation perpetuates inequality due to different access levels of technology. Information technology is unevenly distributed across the world, thus less developed areas are left out. Research and development is also centered in the developed world, hence the less developed countries are left out. Castells therefore argues that globalization has perpetuated poverty since it further alienates the poor, since the global economy is based on highly skilled labour and information technology; it may lead to unemployment since the less skilled will be unable to secure formal jobs (Dowling 1999 cited by Pose 2001). It also gives rise to petty jobs, casual labour and an increase of people eking out a living in the survivalist informal sector, thus having adverse effects to poverty (ILO 2001). The planning implication of a surge of informal activity includes tapping into this sector and providing space for the operation of the sector. From a territorial or planning point, only a few areas benefit from globalisation namely metropolitan regions, intermediate industrial regions and tourist areas (Pose 2001).

Large metropolitan regions in both developed and developing countries with a concentration of high added service and production benefit at the expense of smaller centers (Pose 2001). They benefit as a result of firms clustering in these areas, they attract Foreign Direct Investments (FDI) and are centers of research and development. For example Mexico City receives 60% of Mexico's FDI (Taylor and Walker 2001 cited by Pose 2001). However it does not mean the inhabitants benefit equally, there is a dual economy where high earning jobs coexist with low paid jobs. Thus globalization if unchecked perpetuates inequality and poverty therefore it becomes the role of LED to try and even out these imbalances.

Intermediate industrial regions with relatively lower labour costs, human capital and accessibility advantages are usually attractive for investment. Mountain states in USA and Canada, areas in central Italy and southern Germany are attracting investment away from congested areas. In the developing world Mexican states on the border with USA, southern states in Brazil, Sao Paulo, Maharashtra in India and coastal provinces of China are also attracting a large share of global investment (Pose 2001). Globalisation therefore further alienates areas with less comparative advantages thereby perpetuating poverty. Tourist resorts have benefited from globalization at the

expense of other areas. For example, Durban is a world class tourist resort and it has positioned itself in this regard however not everyone benefits from such endeavours (Ethekewini Municipal Report 2006). The global economy thus perpetuates poverty; it promotes territorial divergence, only a few territories benefit which furthers increase inequalities between areas.

The global economy is also volatile which may have adverse effects on poverty. For instance the East Asia financial crisis of 1997 left the city of Jakarta in stagnation (Robinson 2002). The process of globalization can also be exclusionary, may lead to civil strife which exacerbate poverty and increase vulnerability. In this regard cities should be cautionary in pursuing an all out LED strategy based on globalization. The question therefore still remains whether cities should promote LED geared towards globalization, or rather promote local strategies aimed at reducing poverty? The challenge is to find the rules and the institutions for stronger governance at local, national, regional and global levels to preserve the advantages of global markets and competition, but also to provide enough space to ensure that globalization works for people and not just for profits (UNDP 1995). It is therefore a challenge for planners to see that globalization does not promote territorial divergence but convergence (Pose 2001). Planners should therefore seek to improve the comparative advantage of their areas. Other scholars have therefore suggested that cities should think local and act globally.

### **3.5.2 Thinking Local and Acting Global**

The global economy impacts on the strategies for economic development in cities. Globalisation does not mean the city no longer exists, paradoxically, local and regional governments seem more adept than national governments to navigate in these flows of information, capital, and power, while connecting with the cultural diversity of their constituencies, and representing the interests of their citizens (Castells 1998). Thus cities should position themselves in the global network by means of improving competitiveness, production and quality of life of the city.

Labor is key in the global economy thus cities should engage in locality planning to attract the best labor so as to safeguard against economic stagnation (Castells 1998). For example, The Silicon Valley attracts highly skilled personnel by enhancing the area through innovative urban design and ensuring safety of individuals (ibid). Apart from city planning the city authorities can also come up with strategies which ensure that SME's tap into the global value chain.

Castells argues that to ensure that the SME's and informal sector are not left out the city authorities should foster this sector by not only increasing its productivity but to create high value goods which earn better on the market. In Hong Kong the productivity centre and competitive centre were established (Castells 1998) so as to foster innovation invention and diffusion (Schumpeter 1976). The informal sector should be actively promoted since it is key in job creation and ultimately poverty alleviation (Castells 1998). Promotion of the informal sector is necessary but not sufficient, therefore there is need to link the informal sector with the formal sector so as to ensure that there is a ready market (Castells 1998). Apart from the above city authorities need to enhance governance and their capacity to reap the full benefits of LED.

City authorities need to improve their capacity and governance to safeguard leaks due to corruption and lack of transparency (World Bank 2000; Castells 1998). This ensures that funds targeted for poverty alleviation reaches the intended beneficiaries and also enhances the staff's capacity to implement LED. Castells also argues that promoting identity of a city which increases pride. This creates a sense of community building.

In conclusion one can therefore say city authorities should try to improve the competitiveness of the cities so as to partake in the global economy, however this should not be at the expense of local initiatives since an all out global thrust may have negative impacts to poverty.

### **3.6 INTERNATIONAL PRACTICES IN LED**

This section highlights the experience and challenges of LED as a poverty alleviation tool across the globe drawing from case studies in USA, Brazil, and Germany. These case studies cover various LED strategies such Enterprise Development (Massachusetts Biotech Cluster), CED (Favela Barrio) and the Canal Corridor initiative (New York). The results of these case studies have been mixed. From the case studies best practices which can be replicated elsewhere are identified. The studies also establish the challenges which still face the implementation of LED program. These case studies are described below.

### **3.6.1 Case Study: The Canal Corridor Initiative (CCI) New York**

The New York canal corridor is a powerful symbol of the dynamic past and uncertain future (Schafft et al 2007). The corridor opened economic expansion to the west and turned New York into an important world trade centre, port and city. Towns on this corridor show vast expansion. Prior to this expansion decline was noted as a result of the canals obsolescence, industries shut down, rundown buildings and general decline. The area also suffered job loss (Kuzniak 1999 cited in Schafft et al 2007). For example between 1950 and 1999 the city of Buffalo lost half of its population (Schafft et al 2007) as a result of industrial shutdown.

In 1996 the US department established the Canal Corridor Initiative (CCI) to address the economic downturn spearheaded by then Housing and Urban Development (HUD) secretary Andrew Cuomo. The Initiative built on the State's Canal Recreation way Plan which had been developed during the term of governor Mario Cuomo with the legislative charge to "foster the development of the canal system into a canal recreation way system" (HUD 1996). This was an LED initiative to try and develop the area using an existing structure. The CCI had \$120million in funding towards canal corridor communities (Schafft et al 2007). This initiative focused on tourism, given that the CCI was formed to "fuel the tourism engine in order to help make tourism a primary engine of the new economy". Even though the program aimed at economic development it also aimed at reducing poverty by directing seventy percent of the funding to projects for the low to medium income earners (Shaft et al 2007).

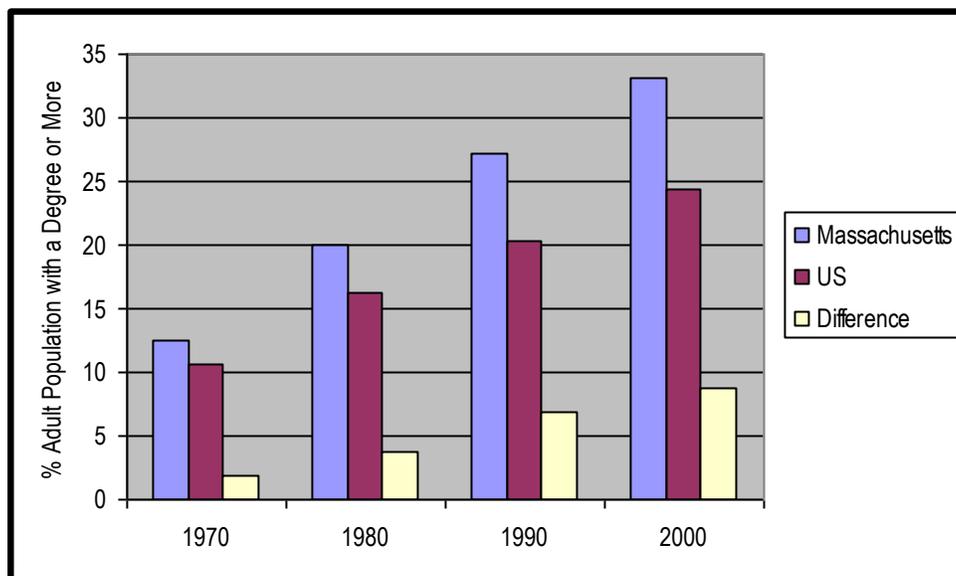
The CCI has been met with mixed results. In the village of Medina along the corridor success was noted by new paving, boat stations and floating docks with a sewer line and pump station (Schafft et al 2007). Thus one can realise that at least some economic activity was brought about by the CCI initiative. The improved boating stations meant an increase in tourism thus there was more revenue for the area as noted by the Mayor of Medina. However funds made available for funding took a long time to be accessed due to bureaucracy and red tape. In the meantime the people's situation worsened as the Mayor in Medina pointed out "People need to have the money in hand". The initiative also spruced up the image of the corridor as residents in Little Falls testify that the downtown area is much prettier and better maintained. What can be learnt from the case study is that it promoted SME's which are an essential pillar of economic growth and poverty alleviation

since employment opportunities were created for mothers and single mothers. However the case study shows that impacts take time to realise as Frohnhoefer 2000 cited by (Schafft et al 2007) argues, “I think it’s a little premature to gauge benefits”.

### 3.6.2 Knowledge Based Economic Development: The Massachusetts Biotech Cluster

Massachusetts comprises of a number of cities who have grouped together to form the Commonwealth of Massachusetts. What best distinguishes the Commonwealth’s Biotech export sector today is its reliance on a highly educated workforce which has developed over the past quarter century. LED in Massachusetts has been boosted by advances in the economic value of a college education due to improvements in the skills developed and transmitted at colleges and universities. The development of specialized skills such as professional design, engineering, and managerial work has also kept Massachusetts Biotech cluster competitive. The explosive growth of information technologies has also been crucial for economic development in Massachusetts. Figure 10 below compares education attainment in Massachusetts with the rest of USA.

**Figure 10: Education Attainment in Massachusetts**



Source: Economic Development Administration (EDA 2000)

Since 1970 to 2000 Massachusetts had a better percentage of education attainment as compared to the rest of USA. This goes on to point out the importance of knowledge as an engine of growth in Massachusetts and its effect on the Biotech Cluster. Massachusetts also has the largest concentration of colleges and universities in the world (Stewart 2007). In this regard The University of Massachusetts has established a multi-campus joint Master of Science and Ph.D. degree program in Biomedical Engineering and Biotechnology which ensures that Massachusetts always has an edge in this sector.

The Biotech cluster is a classic agglomeration economy of knowledge-based clusters. The Massachusetts Biotech Council (MBC) spearheads this sector; it organizes symposia, investor conferences, trade expositions, and consular contacts. There are also specialized real estate developers that convert multi-story brick factory buildings into desirable biotech space. The City of Cambridge drafted regulatory codes and procedures — which other cities and towns have adopted which provide an enabling framework for the operation of Biotech firms. In addition to this there is also a community of lawyers, venture capitalists, public relations and advertising professionals that specialize in biotechnology regulatory matters. This ensures that time is not wasted in bureaucratic procedures but rather it facilitates speedy development.

The economic impact of the biotech sector has been immense. The medical device industry in Massachusetts is both an ongoing vital contributor and a stabilizing factor to the state's economy, providing high paying manufacturing jobs, contributing to total state exports, attracting significant amounts of venture capital investment, and utilizing local suppliers (Stewart 2007). Mass MEDIC, the Massachusetts Medical Device Industry Council, states that from 1997-2002 annual shipments of medical devices increased by 25% from \$4 billion in 1997 to \$5 billion in 2002. Furthermore the payroll of the medical device sector grew from \$989 million in 1997 to \$1.24 billion in 2002. Moreover in 2002, the total economic impact of the medical devices sector in the state equalled \$7.3 billion. In 2003, 10% of all exports from Massachusetts were from the medical devices cluster.

Despite the above inroads Massachusetts still faces a number of challenges. This includes how to stay abreast in the era of globalization and enhancing the quality of life in the area so as to continually attract knowledge workers. However what is clear from the above is that knowledge is

an important driver of the economy. Therefore other regions can learn from Massachusetts by investing in their knowledge economy since it gives rise to economic growth and value addition which are all crucial in poverty reduction.

### **3.6.3 Favela Bairro Project; Rio de Janeiro, Brazil**

The Favela's (squatter settlements) of Rio de Janeiro have been a symbol of poverty and inequality in the City and in the 1980's was characterised by poor housing, substandard services and infrastructure, ill health, low level of education attainment, social stigmatisation, violence, insecure employment and low and unstable incomes (Gilbert 1995 cited in Robinson 2002). The slum upgrading project was undertaken in 1995 by the City of Rio de Janeiro in conjunction with the Inter American Development Bank (IDB). The project sought to ameliorate the effects of poverty through a combination of infrastructure investments, improvement in the coverage and quality of social services, regulatory changes, and incentives and assistance for land legalization (IDB 1998). In essence the project tried to tackle the multiple dimensions of poverty ranging from low income to poor health. Apart from poverty alleviation the projects objectives were to; integrate existing Favela's into the fabric of the city through improvement in infrastructure and level of services; prevent future land invasions; provide more low-cost housing opportunities and provide a replicable model for use by local governments (IDB 1998). The project was implemented in the following manner;

- design of a master plan for the area (for Favela's);
- discussion of proposals with the organized community and adjustment of project designs;
- preparation of final drawings for investment projects, approved by state and municipal agencies; technical analysis and approval by the executing unit;
- project implementation by construction companies, with incentives for employing local community labour;
- operation and maintenance, by city or state agencies; and monitoring and evaluation (IDB 1998).

The implementation tried to be holistic in that various stakeholders such as the community, municipality and state agencies were involved. The design of the master plan was done in

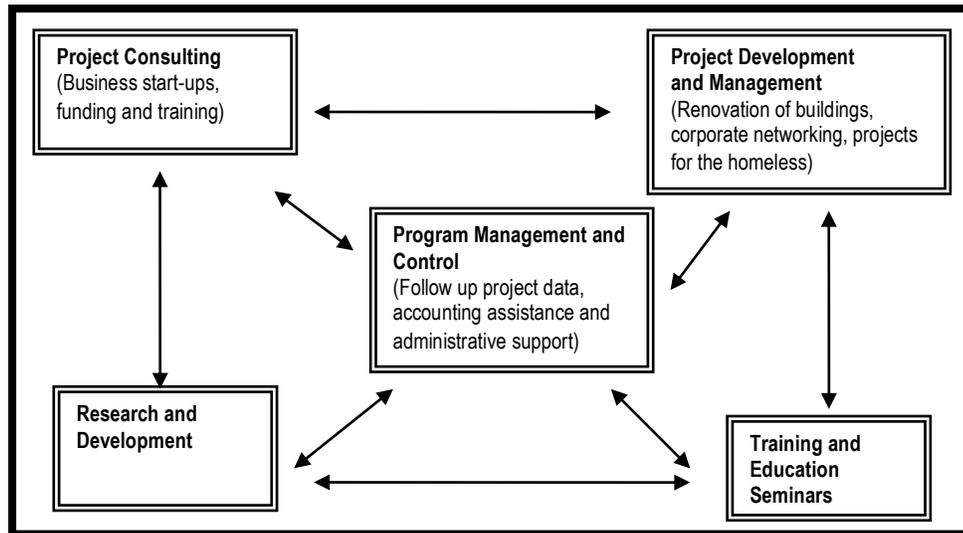
consultation with the local community. The Favela project may be used as a model which can be replicated elsewhere in the developing world since it achieved considerable success. This success was made possible due to a committed and flexible city government which was ready to deal with any challenges (IDB 1998). Furthermore the local government put in a supportive legislative framework which enables rather than hamper poverty alleviation. The program works in conjunction with other programs since it supports existing city programs for implementing low-income urban settlement policy, increasing their scope and improving their effectiveness (IDB 1998). This enables the consolidation of gains from one program to the other. Moreover the program tackles poverty from a multi dimensional angle meaning it uses a holistic approach. Furthermore the program highlights that improving the infrastructure which enhances human capabilities is a driver of economic growth. Unlike most LED programs in the developing world the project had a monitoring and evaluation system in place which allowed for learning and feedback opportunities and assessing whether the program is achieving the intended outcomes.

#### **3.6.4 Integrated Local Economic Development; Hamburg, Germany**

Hamburg's economic development strategy was a result of jobless growth and combined adverse effects of official programs (Moulaert 2000). The city of Hamburg developed LED initiatives which cut through the entire policy system (economic, social, political systems). Its LED strategy is coordinated, wherein the city coordinates its anti poverty initiatives and other specific sectoral initiatives which are undertaken (Moulaert 2000). These integrated initiatives are described below.

- i. **Actions in favor of and based on the mobilization of the local population and building up of local conscience-** Moulaert argues that these initiatives integrate the struggle against poverty, unemployment, housing shortage, based on empowering the residents. This has led to remarkable results; for example, the John Daniel Laweats Stiftung Association which develops coordinates, advises and provides training, research and development for LED. This is depicted in figure 11 below.

**Figure 11: Activity Domains of the John Daniel Laweats Stiftung Association**



Source Adapted from Moulaert (2002)

It is clear that the John Daniel Laweats Stiftung Association assists projects in various dimensions such as training and research and development.

- ii. **Vocational training adapted to the needs and capabilities of the population**-This strategy helps empower the residents so that they can be effective in implementing economic development (Moulaert 2000). Projects in this regard include the Department of Health and Social Welfare fund which funds NGOs to deal with specific problems. The center for vocational training operates with other organizations in provision of education and skills training sponsored by the Social Welfare Department.
- iii. **Activities developing production activities, meeting local needs with potential new jobs for the people**-One can argue that Hamburg was successful in gradually building up its capacity leading to the adaptation of training for local needs. This has been the cornerstone of Hamburg's economic development strategy.

Lessons which can be learnt and replicated elsewhere from the Hamburg case is that the LED strategy for Hamburg is well thought out and integrated as evidenced by the activity domain of the John Daniel Laweats Stiftung Association (Moulaert 2000). The association does not only train the residents but it tailors the training to local needs. The association first educates the residents

before training to maximize benefits of training (ibid). By so doing the residents' capacity and capabilities are enhanced (Sen 1999). The Hamburg case study is also impressive in that the local authority, land institutions and central government have a unique capacity to cooperate with themselves first, which further enhances their cooperation with NGO's and the Private Sector and integrate social components of the economic development strategy (ibid). This ensures that initiatives are coordinated and not conflicting which may hamper economic development. Therefore Hamburg may be said to be close to what can be defined as successful local economic integration (ibid). This is reflected in the Program *Armusbekämpfung* launched by the city authorities in collaboration with the senate in 1994 as a framework for various integrated actions in the struggle against poverty. This framework recognizes the importance of all sectors who partake in economic development and it further emphasizes that the residents are involved in the decision making process, implementation and monitoring and evaluation of projects (Moulaert 2002). In essence the framework is not piecemeal but holistic in the sense that poverty alleviation is not viewed as a single entity but is integrated into the economic development strategy. The Hamburg case is considered as one of the best practices in LED since it is integrated wherein all sectors are involved in planning. However there is need to stress that there are limitations to participation in Hamburg and integrating efforts poses a challenge which is not easily achieved. It is difficult to get people to participate at the same time (Ibid)

### **3.7 SUMMARY OF CHAPTER**

From this chapter it is clear that LED has got increased international attention given that argued that it promotes economic growth and poverty alleviation at local level. The emergence of LED is as a result of the disappointment and failure of previous development strategies that were employed in both developed and developing countries. When implementing LED, there is a consensus that economic development is a necessary but not a sufficient condition for poverty alleviation. Moreover economic growth and poverty alleviation are mutually. Furthermore for LED and poverty alleviation to be successful inequality needs to be addressed. This is in the wake of worsening inequality due to globalization, thus LED is seen as a tool to even out these inequalities. From the international case studies it is established that there are very few successful LED programs. However the case studies highlight the importance of knowledge as a key driver of

development and the need for integration which ensures that gains are consolidated .In developing countries there is need to put in place a monitoring and evaluation system to asses if desired outcomes for LED programs are being met. Moreover there is need to give some lead time before programs are assessed because projects require time for impact to be felt. There are also challenges such as participation, balancing economic growth and poverty alleviation and the pressures brought about by globalization which still needs to be addressed.

# CHAPTER FOUR: LED IN SOUTH AFRICA

## 4.0 INTRODUCTION

This chapter describes the Local Economic Development (LED) set up in South Africa where it is used as a tool to promote development in previously disadvantaged areas: promote developmental local government and enhancing competitiveness of the country in the wake of globalization. LED is strongly pursued by the national government and it is supported by legislation namely the Constitution and White Paper on Local Government and other legislation. In South Africa LED is implemented by National government, provincial government, local government and other stakeholders. The chapter also describes various cases of LED practices at provincial and local level from which best practices and challenges are identified.

## 4.1 WHY LOCAL ECONOMIC DEVELOPMENT?

LED has attracted increasing attention from government and other stakeholders in South Africa (Nel et al 2005 ). LED was born after South Africa's Transition to democracy in 1995 and Mandela's speech in 1995 spells out the need for LED, he says "by mobilising resources of urban communities, government and the private sector we can make our cities centres of opportunities for all South Africans within the world economy". However there are traces of LED prior to independence (Rogerson 1995b). These efforts were aimed at promoting development and racial reconciliation which was carried over after the verge of democracy in 1994.

Democratic South Africa inherited an economy with a dual economy. South Africa is Africa's second most competitive economy ranked 44<sup>th</sup> in the world behind Tunisia ranked 32<sup>nd</sup> (World Economic Forum 2008). Despite South Africa being a world class economy 40% of its population is unemployed (Nel et al 2005). Meanwhile the South African Government has pursued a neo-liberal macro-economic agenda, and seeking market-driven economic expansion and growth, facilitating market expansion, with local government having a key role to play in stimulating economic development through investment in infrastructure, to 'crowd in private investment and

boost short-term economic performance' (RSA, 1996b, p.7). In planning for development in one of the most unequal society South Africa is placing emphasis on what it terms developmental local government wherein it increases the role of government agencies in promoting development and growth thus entrenching a pro-poor policy focus (Nel and Rogerson 2005). The government states that 'the central responsibility of municipalities (is) to work together with local communities to find sustainable ways to meet their needs and improve the quality of their lives' (RSA, 1998a, p.17). Therefore local municipalities are to be the engines of growth and development.

South Africa's had an approximate population of 44.8 million in 2001, with 58% being urbanized (approximately 26 million). Of the 58%, 80% lived in the 21 largest urban centers and while 20% million lived in the 9 largest centers which constitute the SA Cities Network (SACN, 2004). Statistics of per capita income may give the wrong perception that urban areas are performing well, these generalizations hide specific realities (ibid). There is high concentration of poverty with 24.7% of the population living below the poverty line in urban areas in South Africa. The Metropolitan areas such as Durban carry a greater proportion of this population. Durban has 4% of the population living below the minimum living level, followed by Johannesburg with 3.7% of the people living below the minim living level. These high levels of poverty are contrasted with high levels of output in these cities. For example the gross geographic product (2001-2004) in the four largest cities is marginally higher than the national average. Thereby implying economic prosperity for all of which is only for a few (SACN 2006). Thus it is the onus of LED to address such imbalances.

LED in South Africa is a discipline still coming into its own with competing strands of argumentation (Bond 2003). In the country LED is interpreted in two ways, which may have the same desired goal but proceed in two different paths. The first path is increasing economic growth through enhancing the competitive advantage of a place, and the second one is the struggle against poverty (Lootvoet et al undated). The question is whether these two paths are compatible and which one is preferred? The question still remains can the privileged and unprivileged benefit in the same way through LED? In this regard South Africa through its various policies and legislation has tried to champion the view that the underprivileged benefit from LED.

LED in South Africa is governed by the constitution (RSA 1996), some laws and policy papers (Nel 1999). The constitution states that the local government must "promote social and economic

development". Apart from the constitution the Reconstruction and Development Program (RDP), the 1998 Local Government White Paper and the 2000 Local Government Systems Act assign responsibilities to Local authorities to implement LED. This legislation determines the developmental role of municipalities; assign developmental powers and enshrine obligations such as the need for participatory development and the need to prioritize communities (Nel et al 2005; World Bank 2005). The Municipal Structures Act 1998 is also key in LED in that it makes provision for three levels of local government namely;

- Metropolitan Councils, i.e. the large conurbations with multiple business districts,
- Municipal Councils, i.e. non-metropolitan local councils, and
- District Councils which oversee groups of municipal councils in urban and rural areas.

The Local Government White Paper (1998) states that local government is responsible for the implementation of local economic development. The local government plays an important role in job creation and in boosting the local economy through the provision of business-friendly services, local procurement, investment promotion, and support for small businesses and growth sectors. The Municipal Systems Act of 2000 stipulates that municipalities must involve communities in the decision making process. Other legislation and policies which promote LED include the Urban Renewal Programme (2001), Accelerated and Shared Growth Initiative in South Africa ASGISA (2005) which underpins an emerging city agenda on LED and the Spatial Development Strategy which encourages regional economic development (Nel 2000). The Urban renewal programme will be discussed in detail in the next chapter as it impacts largely on the KwaMashu area. Laws such as the Development and Facilitation Act (1995) and Urban Development Framework (1997) also have a bearing on LED. Instruments such as the Integrated Development Planning (IDP) process, which requires an economic and spatial development component, promotion of participation and appropriate institutional and funding mechanism also, have a impact on LED.

In recent years, the main vehicle for the developmental task of local government has been the IDP process. The integrated development plan is a five-year-plan which looks mainly at infrastructure development but also includes LED activities. The preparation of IDP includes comprehensive consultation exercises with local communities, albeit it appears that local business communities are not very present in these exercises (Meyer Stamer 2006). LED in IDP relates more to

infrastructure and buildings, not to other typical LED interventions like business networking or business development service programmes (ibid). In essence there is a sufficient legal basis in SA from the constitution up to instruments such as the IDP. In 2006 the Department of Local Government (DPLG) issued out a formal policy on LED called National Framework for LED in SA: Stimulating and Developing Sustainable Local Economies. The objectives of this framework are listed below:

- To shift towards a more strategic approach to the development of local economies and overcome challenges and failures in respect of instances where municipalities themselves try to manage a litany of non viable projects or start ups.
- To support local economies in realizing their optimal potential and making local communities active participants in the economy of the country.
- To elevate the importance and centrality of effectively functioning local economies in growing the national economy,
- To wage the national fight against poverty more effectively through local level debates, strategies and actions.
- To improve community access to economic initiatives ,support programmes and information
- To improve the coordination of economic development planning and implementation across government and between government and non governmental sectors.
- To build awareness about the importance and role of localities and regions which globally, are playing an increasingly significant role as points of investment, facilitated by supportive national policies.

This policy framework is crucial as it avoids policy confusion and sets out targets which are yet to be examined local government. The policy framework also recommends a number of LED strategies listed below.

- Industrial recruitment and place-marketing;
- Small, medium and micro enterprise (SMME) promotion and support;
- Community economic development;

- Export promotion;
- Business retention and expansion; and
- Investment Attraction designed to alleviate poverty, support small business and
- Expand business development (DPLG, 2000b).

These strategies have been implemented in various provinces and municipalities. The range of LED initiatives varies, with the metropolitan areas in a better position to promote LED due to their better resources as compared to the smaller centers (World Bank 2005). The section below describes the case studies, lessons learnt, challenges and best practices in LED are identified.

## **4.2 LED IN THE FREE STATE PROVINCE**

As is the case in all South African provinces, the support given to LED by the Free State provincial government is underpinned by national legislation such as the Constitution and local government legislation which provides the framework for developmental local government (Free State Provincial Government 2003). The Free State provincial government focuses on its areas of competitive edge, in the mining, agriculture and tourism sectors, in order to promote economic growth and reduce poverty. LED at the provincial level is mainly supported by the Department of Economic Affairs, Environment and Tourism (mainly through its implementing agency, the Free State Development Corporation), the Department of Local Government and Housing, and the Department of Social Development. There is a deliberate effort by provincial departments to co-operate in the implementation of their activities. Consequently, all provincial government departments are guided in their activities by the Free State Development and Planning Framework, Poverty Relief Strategy and the Free State Growth and Development Strategy (FGDS), all of which have LED related components.

LED in the Free State is mainly informed by the FGDS which focussed on four key areas namely; economic growth, development and employment; justice and crime prevention; social and human development and efficient governance and administration. There is a great need to boost economic growth since it is in a weak economic position given Free State's small contribution to national GDP. Its weak position is further reflected by the low income per capita of R11854 per annum

compared to R17164 for South Africa and 32 356 for Gauteng (Center for Development support CDS 2005). Moreover there is a high unemployment rate of 38, 9%.Its level of development is slightly lower than the national average, with it having a Human Development Index of 0.67, which is just below the national average of 0.69 (ibid). The free state seeks to achieve economic growth, high levels of development and reduce employment through placing more emphasis on the key economic sectors such as tourism, agriculture and manufacturing; developing and expanding the SMME sector, provision of infrastructure and social services.

#### **4.2.1 Lessons Learnt From the Free State**

LED in the Free State still faces major impediments to its successful implementation .This has been observed from various evaluation studies on LED by the Center for Development support (CDS 2005) University of Free State, Marais *et al.*, (2002), Ingle (2003), Marais and Botes (2002) and The Premiers Economic Advisory Council (PEAC). These evaluations all point to a limited value of LED projects due to a number of problems as identified below.

From evaluations carried out on LED in the Free State very few programs have been a success. Successful initiatives are those in which the local government has little if any involvement, for example, tourism in Clarens and Smithfield. The most successful projects are those which are market-related and generally initiated by the private sector (or the church in Smithfield and the Municipality in the Goldfields). Tourism and various business operations, some of which have international linkages, are clearly the most successful (Center for Development Support (CDS 2005). It appears therefore that there is little evidence of successful LED programs in the Free State (The Premiers Economic Advisory Council (PEAC2004).

The Premier's Economic and Advisory Council (PEAC) commissioned an in-depth study into LED approaches. PEAC'S study finds out that the outcome of LED initiatives in the Free State has been most disappointing. In fact, clear successes, of which the study briefly documents two (Clarens and Smithfield) have been the exception:

*“few, if any projects have become sustainable; few if any permanent jobs have been created; there are concerns over projects mismanagement; there is a lack of adequate business planning and the lack of training inhibits success. In addition, projects seldom involve the private sector and poverty is not really being addressed”* (PEAC 2004).

The study lays the blame of this ineffectiveness of LED programs on piecemeal commitment by municipalities with their actions often deterring or impeding investments. Moreover there is no clear distinction between LED as economic development facilitation and LED as poverty alleviation, both are necessary, but each demands a different approach. Municipalities not only lack business and management skills to plan or implement projects, but many suffer from acute financial constraints, while most of them have in the past few years faced a politicisation of development efforts (which often led to the exclusion of important partners, like private sector). DPLG and local government projects have almost all failed, as the secondary literature indicates (PEAC 2004).

Evaluations by the Center for Development support (CDS 2005) University of Free State, Marais *et al.*, (2002), Ingle (2003), Marais and Botes (2002) point to a limited value of LED projects due to a number of problems considered below. In several municipalities, reluctance to answer questions regarding LED projects was noted and information from various officials was often contradictory which just adds on to the confusion regarding LED. In many cases, the business plans for projects did not link those projects effectively to the real needs of the community. Moreover, the viability of many project applications has been questioned. Business planning was found to be inadequate and the reasons why government released funds under such conditions have been called into question. Many projects have an agricultural focus thus there are concerns as to whether an agricultural approach (over half of all LED investments) can be the basis for effectively diversifying the provincial economy (Marais *et al.*, 2002).

SMME development on the other hand, is seen as a lead sector, even though it has performed dismally as an LED approach. According to Marais *et al.*'s (2002), very few SME's were established in the Free State as a result of LED initiatives. Most of the SME's are not economically competitive and lack proper market research which is required if they are to penetrate the global value chain. In addition LED-targeted funds were incorrectly absorbed into general municipal accounts. Thus

municipal financial arrangements are not geared to manage entrepreneurial projects Marais *et al.* (2002). In some cases, LED Funds could not be accounted for. Nevertheless SME's have created employment even though most tend to be short-term jobs. Ingle (2003) was not able to find a single long-term job created in the LED Fund projects which he investigated. Despite an investment of over R15-million in the 16 projects only 95 long-term jobs (all in agriculture) had been created. No long-term jobs were created in other sectors (*ibid*). The failure to generate any long-term jobs in critical areas such as manufacturing and tourism is clearly cause for concern in the Free State.

There is also lack of synergy between government departments, horizontally and vertically which does not help the smooth implementation of LED and also may lead to project duplication. Moreover it appears that government departments seem indifferent to experiences gleaned from other projects, which leads to a repetition of failure in subsequent programs.

#### **4.3 LED IN LIMPOPO PROVINCE**

LED by the Limpopo provincial government is underpinned by national legislation such as the Constitution and local government legislation which provides the framework for developmental local government. Limpopo's gross geographic product contributes only 6.5% to the national GDP. The province is a typical developing province with poorly developed infrastructure and services, meaning Limpopo basic human capabilities are lower as compared to other provinces. A composite index of access to all services indicates that access to basic services in the Province is 30% below the national average. Social indicators also point to well below average levels of social development with the highest proportion of females in the population in SA (54%). Moreover it is the country's' poorest province with 61% of the population living below the national poverty line. It is against the above background that the province promotes LED so as to promote economic growth and poverty alleviation. LED in Limpopo is guided by The Limpopo Province adopted a Provincial Growth and Development Strategy (PGDS). The PGDS aims at sustainable and integrated development that seeks to promote economic growth and development, improve the quality of life of its citizens, raise the institutional efficiency of government, attain regional integration and enhance innovation. The main actor of LED in Limpopo is arguably the Limpopo LED partnership which is an agreement between the European Union and the South African

Government signed in on 28th May 2002 and has a validity of six years, until 27<sup>th</sup> May 2008. The LED partnership has four dedicated funds to meet the key result areas and ameliorate impediments to economic development namely: Local competitiveness fund; marginalised communities finds; local government fund and the financial innovation fund.

### **4.3.1 LED Challenges in Limpopo**

LED in Limpopo still faces a number challenges .One of the major challenges in promoting LED in Limpopo is trying to integrate all government departments. The UNDP (2003), point out that there is a lack of vertical and horizontal linkages within government departments and other stakeholders which derails implementation and leads to duplication of activities. Furthermore it is also a challenge to make all departments participate together with the citizenry (UNDP 2003). The UNDP in an evaluation of LED projects in Limpopo found out that, the extent to which the local community shares in the definition of the LED problem and participates in its identification is a prime factor affecting project success.

It has been observed by the UNDP that local participation in project processes does not necessarily mean everyone has to participate, however the major challenge is how to make people participate in a transparent manner which is also representative. There is a need to promote effective participation form the inception of an LED project since participation of the local people in the project planning, implementation, monitoring and evaluation processes is critical to the performance of a project.

It is also argued that municipalities in Limpopo do not as yet have a clearly designed and articulated LED Programme that targets particularly the impoverished rural areas. Moreover most are incapacitated with resources (both financially and human) making implementation of LED difficult (UNDP 2003; Tomilson 2001). In addition it is common to find municipalities with many consultants' reports since its mandatory to engage in LED yet very few activities will be taking place on the ground.

#### **4.4 LOCAL ECONOMIC DEVELOPMENT IN ETHEKWINI**

Ethekwini has a long record of LED dating back from the 1980's. LED in Durban is as a result of declining industrial growth especially in the textile sector. Nevertheless there is general economic growth and job creation is evident albeit at a slow pace which results in high unemployment due to rapid urbanization (Nel et al 2005; DPLG 2006). Durban's policy on LED evolved from the 1996 Green paper on economic Development which focused on providing services to the poor (Nel et al 2005). The year 2000 Long Development framework was triple pronged, it emphasizes economic growth, skills development and meeting basic needs. These policies were also aimed at addressing apartheid imbalances (ibid). Strategies from these policies include key pro poor interventions in the form of SMME support, community tourism, provision of township centers, markets and urban agriculture (Ethekwini Municipal Report 2006).

LED policy in Durban intimates being pro poor however only 15-20 % of the budget is allocated to pro poor issues (Nel et al 2004; Rogerson 2005). The poor are only prioritized in policy in terms of service provision; however there is a sense that at the local levels this not being addressed. An exception to this is the EU funded Cator Manor project (Nel et al 2005). There is also less participation in Durban since the strategy has become more formalized and committee driven (ibid). Despite intimating being pro poor there are hardly programmes to deal with the needs of the poor (World Bank 2005). Partnerships, in terms of being pro poor hardly exist; in contrast The Durban Growth Coalition represents a strong pro growth coalition. In terms of linking pro growth and the poor evidence suggest that there is no linkage and the EDD does not priorities this (Nel et al 2005). Apart from the above there appears to be uneven and erratic monitoring and evaluation which is crucial in providing feedback (ibid). Moreover the evaluation is usually on purely quantitative terms which hide underlying dynamics (SACN 2006).

#### **4.5 CAPE TOWN**

Cape Town is one of South Africa's major cities which is experiencing significant growth in the tertiary sector, rapid urbanization, entrenched poverty and significant environmental challenges given the presence of a national Park around Table mountain in the heart of the city (Nel et al 2005). Therefore poverty alleviation and environmental management feature prominently in Cape

Town's pro-poor interventions. Unemployment stands at 20%, while 20% of the households live below the poverty line. Thus in trying to enhance the income of residents, Cape towns LED strategy is pro poor with the Expanded Public Works Program being key in creating employment opportunities for the poor (ibid).

Cape Town's LED policies are underpinned by the 1999 Economic Development Framework (EDF) and the 2005 Local Area Economic Development Framework (LAEDF). Strategies under these policies include livelihood strategies, providing infrastructure, safety nets and creating employment. Under the EDF and LAEDF the link between growth and poverty is implicit (Pieterse and Parnell 1999). Cape Town's strategy is methodical in that it sets out the various poverty approaches and the strategies for poverty alleviation (ibid). Flagship projects which are pro-poor include the Community-based waste management systems and the Ukuvuku Operation Fire Start (Nel et al 2005). It is argued that they have been relatively successful however there is need to increase the scale for greater impact (ibid). Overall the policy framework in Cape Town is conducive to the poor (Pieterse and Parnell 1999; Nel et al 2005). Nevertheless delivery still remains a challenge (ibid). The Cape Towns' case study highlights that poverty is multi-dimensional.

#### **4.6 NDLAMBE**

Ndlambe is a small municipality lying on the south-eastern coast of the Eastern Cape Province including the towns of Bathurst, Port Alfred, Alexandria and several smaller centers. Ndlambe seems to be a sustainable municipality which thrives on national funds in the support of pro-poor LED projects (Nel et al 2005). The economy is heavily dependent on agriculture and tourism. The projects for LED include the Umsobomvu youth project, the Pineapple Pulping project which moved from a subsistence phase to operate profitably (ibid). However once municipal funding dried up the project ceased, like the pineapple project the Isitema brick making project also failed in a similar fashion (ibid). Thus the projects are not sustainable in the long run. The Ndlambe case study highlights the need to balance being pro-poor LED with economic growth. It also points the vulnerability of over-reliance on funding of projects from external sources (Nel et al 2005). Hence capacity needs to be enhanced within, to sustain projects in the long run.

## **4.7 CHALLENGES FACING LED IN SOUTH AFRICA.**

From the case studies it is clear that it is difficult to come up with a typology of LED in SA, with some being pro growth and other pro poor (SACN 2006). There is also lack of clarity on whether economic growth will or will not address poverty (Nel et al 2005). Thus there is a lack of clear conceptualisation on LED. Furthermore there is lack of integration and synergy between government departments and within municipal departments. The LED policies are scattered in various policies such as the Urban Renewal Policy and RDP. A coherent set of guidelines and a framework for LED has yet to emerge (Rogerson 1997). There has also been few success stories and lack of monitoring and evaluation systems. Implementing agencies find it difficult to balance between economic growth and a pro-poor. The lack of resources and inadequate qualified personnel still hampers LED particularly in poor resourced municipalities. Moreover there is a big city bias in terms of support of LED policies (SACN 2006). A problem which is common in both large and smaller centers is inadequate participation.

The level of participation also needs to be addressed if LED is to achieve its goal. Often it is the elite, the educated and the least poor (Chambers 1995) who take part in the planning thus the needs of the poor are left out. They remain poor, vulnerable, isolated and often lack the will to participate in projects owing to low self esteem. Unless the poor become subjects in LED policies and not objects LED will not achieve its aim of poverty alleviation (Paddison 1997). Paddison questions the level of participation in that some people participate for their own self gain not for the community at large. Thus until LED rises above the level of “economics” poverty alleviation will not be fully realised.

LED has been identified with small projects with an extremely limited impact on poverty alleviation (CDS 2005). Evaluations found that the impact of such interventions was very limited. At the same time, it became obvious that there needs to be a stronger effort to enhance the job creation capacity of the established formal economy. Thus, creation of location-based competitive advantage is a theme that has been introduced into the LED policy (ibid).

Few municipalities appear to have poverty reduction targets with Tshwane and Cape Town being the exception (Nel et al 2005; SACN 2006). This therefore makes it difficult to monitor trends in poverty. Given the absence poverty of reduction targets, it becomes difficult to monitor and evaluate whether LED is reducing poverty (Nel et al 2005). Thus the dynamics of poverty are scarcely explored (Nadvi 1999). For example some of the LED policies focus on job creation however what is of essence is job creation for whom and its sustainability (Nadvi 1999). Municipalities are therefore not capturing their achievements adequately.

Other scholars point out that LED originated in the North, and there is a tendency in South Africa to transplant these policies rather than transferring and developing locally appropriate models of LED (Delany 1997). Thus there is excessive reliance on fashionable LED programs at the expense of less fashionable ones which may go a long way in poverty alleviation (Pose 2001). Delany (1997) therefore argues that until there are local grown strategies the fight against poverty will be a lost battle.

From the above experience of LED implementation in South Africa the national government has proposed a new agenda for LED which focuses on;

- Improving the number of professionals who implement LED
- Ensuring inclusive LED that provides growth and poverty alleviation based on the dynamic relationship between the two
- Improving education, which improves skills training
- Developing City LED policies, which are in line with national policy?
- Monitoring and evaluation
- Coming up with a coherent definition on LED
- Focusing more on sustainability
- A clear policy and regulatory framework

This above agenda is further elaborated on in chapter 9 where there are recommendations in improving LED as a poverty alleviation tool.

## **4.8 SUMMARY OF CHAPTER**

In this chapter it is clear that LED is actively pursued by the South African Government given a variety of legislation which promotes and facilitate LED. LED is seen as a means to promote economic growth, addressing inequality and as a panacea to poverty alleviation. LED is implemented at national, provincial and local government levels. Other stakeholders such as NGO's also take an active part in LED. From the case studies it is established that there are challenges which face the successful implementation of LED. These challenges include lack of integration between implementing agencies, lack of resources, lack of monitoring and evaluation systems, an unclear conceptualisation of LED, balancing objectives and the limited impact LED has had in alleviating poverty. These challenges have prompted the South African government to come with a new agenda which tries to address these challenges, so that LED becomes a better tool in alleviating poverty.

# CHAPETR 5: METHODOLOGY

## 5.0 INTRODUCTION

Research methodology refers to the tools and techniques used in the research process (World Bank 2007). This study assesses the impact of the INK ABM program on poverty alleviation, by employing a Poverty Social Impact Assessment (PSIA), through assessing the welfare of SME's. The PSIA employed both qualitative and quantitative methods of data collection and analysis are used hence it adopts mixed method research (Johnson and Onwuegbuzie 2004). The research adopts a mixed methods approach in order to assess poverty in its various dimensions. Mixed methods research defined as the class of research where the researcher combines both quantitative and qualitative research techniques, methods, approaches, concepts and language into a single study (Johnson and Onwuegbuzie 2004). Integrating qualitative and quantitative approaches to development research can help yield insights that neither approach would produce on its own (Rao and Woolcock, 2003; Guba & Lincoln 1989; Lincoln& Guba 2000; Schwandt, 2000; Smith 1983, 1984 cited by Johnson and Onwuegbuzie 2004). The procedures followed under the mixed method framework employed: sampling, getting field access and conducting the PSIA using both quantitative and qualitative data collection methods and data analysis.

## 5.1 SAMPLING

Sampling is the process of selecting units from a population of interest so that by studying the sample one may fairly generalize results back to the population from which they were chosen (Trochim 2006). The small survey size will be used in this research with a mixture of targeted and untargeted qualitative and quantitative research tools which reveal unique features of poverty (Baker and Schuler 2004). This approach was used in a poverty assessment in Maseru Lesotho by the UNDP and it helped highlight aspects of poverty that are reduced. Both purposive and random sampling were used when conducting the survey. Purposive sampling is used since there are certain groups of people (for example SMME's and households), which were key in assessing the impact of LED strategies on poverty in KwaMashu.

### 5.1.1 Sampling Procedure

The sampling procedure is outlined below

- I. A sample of 40 Small Micro to Medium Enterprises (SME's) was selected systematically from the KwaMashu Town Center Layout. The systematic selection involved selecting the first interview randomly then from then onwards the next fourth SME to participate in the survey. This ensured reduction in bias and ensuring that most of the SME categories were included in the survey.
- II. A further Sample of 8 SME's were interviewed at the Durban SME fair 2007. This sample of eight consisted of SME's in stage three and four of entrepreneurial growth which are mature, skilled and earn income (see table below for list of SME's). These were selected purposively by means of asking the SME's whether they are originally from KwaMashu since the research was based on case studies from KwaMashu.

**Table 8: SME's Interviewed at Durban SME Fair**

|                     |                         |
|---------------------|-------------------------|
| <b>Respondent 1</b> | Contractor(pavement)    |
| <b>Respondent 2</b> | Clothes designer        |
| <b>Respondent 3</b> | Arts and Craft Designer |
| <b>Respondent 4</b> | Gift Designer           |
| <b>Respondent 5</b> | Contractor              |
| <b>Respondent 6</b> | ICT Expert              |
| <b>Respondent 7</b> | Commodity broker        |
| <b>Respondent 8</b> | Arts and Craft Designer |

Source: Authors Construct

- III. Ten household interviews undertaken at random near the KwaMashu Town Center. These act as a control group so as to compare with information which was solicited from SME's, secondary sources and key informants.
- IV. Key informants were purposively selected. These include The Area Manager for the INK ABM, a former manager with the INK ABM , LED consultants, The Project Manager KwaMashu Town Center development and an LED expert within the business Support Unit (Ethekewini Municipality)

## **5.2 RECONAISENCE AND DATA COLLECTION TOOLS**

The researcher first made contact with the INK program manager to get permission to undertake the research. This gave legitimacy to the research and the researcher to test the data collection tools used in the survey. The tools which were used in this survey were; key informant interviews, questionnaires, mapping, observation, and use of secondary sources. These instruments used in are described below.

### **5.2.1 Questionnaires**

A questionnaire is a data collection tool in which written questions are presented which are to be answered by the respondents in written form (Carman 2004). Questionnaires were administered to 40 SME's and 10 households in KwaMashu. The questionnaires contained mainly coded questions which simplified responses and assisted in data analysis. The coded questions assisted the research in gaining information on poverty indicators namely: income, assets, employment, human capabilities and access to basic infrastructure and services. Open ended questions were used to gather information on how people in KwaMashu view poverty and LED strategies being implemented by the INK ABM. The data from questionnaires was compared with secondary data statistics to check for consistency, variations and trends. Questionnaires usually suffer from low rate of response. The researcher in this regard tried to shorten the time taken conducting the interview since most of the SME's would wanted to carry on with their business. Nevertheless there were obstacles which include residents not being interested. In this case the researcher went on and carried out the next interview.

### **5.2.2 Observation**

The Observation method was used by the researcher where a diary was kept noting major observations which where key in analysis. These observations were on: the town center layout: the activity and vehicular traffic movement at the town center. Furthermore the research took note of ease of movement of pedestrians, setup of SME trading places and interaction between traders and customers. Observation made it possible to cross check some responses from the

questionnaire. For example if an entrepreneur highlighted poor storage facilities the researcher by observing the site would confirm that indeed there is poor storage facilities on site.

### **5.2.3 Mapping**

Mapping is a valuable technique for visually displaying relationships and resources (Carman 2004). It is useful as a pre-stage to sampling. An aerial photograph with cadastral information was obtained from the GIS department at eThekweni Municipality which was used by the researcher in identifying the location of SME's and households which were included in the sample (see figures 18 and 19 in chapter 7).

### **5.2.4 Key Informant Interviews**

Key informant interviews usually focus on deriving information from individuals who have a specialist knowledge or skill in a field (Carman 2004). Key informant interviews that were conducted were with specialists and experts in LED (see section 5.1). Information sought from key informants was on the background, setup and aims of the INK ABM, the anchor projects being implemented, the background and implementation of the KwaMashu Town Centre Redevelopment, on LED strategies targeting the SME's, they also provided the researcher with secondary data and networked the researcher with other LED professionals associated with the INK ABM. From LED consultants an independent opinion was sought with regards the impact of the INK ABM in KwaMashu.

### **5.2.5. Use of Secondary Data**

This involves use of data that has been collected by others, although it may not necessarily have been analysed or published (ESRF 2002). In this research key secondary data sources that were used are; census 2001 statistics on KwaMashu, INK Household Survey 2005 and various reports from within the INK ABM. The secondary sources were used to provide baseline information on poverty and development indicators in KwaMashu which facilitated trend analysis as well as calculating the City Development Index (CDI). Secondary data was also useful in comparing levels

of poverty the INK ABM in KwaMashu before the INK ABM and during and after project implementation. An effort was made to use up-to-date (information from 2000 to date) and multiple information sources so as to ensure that there is consistency and reliability.

### **5.3 DATA ANALYSIS**

Data analysis is a process where one transforms data collected with the aim of gaining useful information and coming up with conclusions, see figure 2 (chapter 1) for analysis framework (World Bank 2002). Data collected from the questionnaires was entered into Microsoft excel worksheets where responses are compared and trends analysed using pivot tables which is a feature for analysing trend in excel worksheets. From the worksheets percentage responses are calculated, profiled and graphically displayed since most of the questions in questionnaires were pre-coded. Profiling takes the form of tables which show information on income, employment, asset indicators and perceptions of poverty. Data collected from the secondary data was used to calculate the KwaMashu development index. Secondary data sources are also profiled to produce tables and graphs on sanitation, education enrolment, income, and access to services. From these conclusions on whether LED is an effective poverty alleviation tool were made.

### **5.4 LIMITATIONS OF THE STUDY**

One of the limitations was security concerns which led to the decision of interviewing SME's at KMTC which is a relatively safe place. Analysis of the effectiveness of the institutional setup of the INK ABM was hardly possible due to unavailability of data and lack of clear cut measurable indicators. It was also impossible to conduct focus group discussions as planned due to logistical reasons. To make up for this limitation more secondary data sources were solicited. Owing to resource and time constraints gathering some of the information necessary to conduct a comprehensive impact assessment was not possible. However the small sample survey gathered information which was adequate to provide a framework from which conclusions could be drawn.

# **CHAPTER 6: PLANNING, DEVELOPMENT AND POVERTY IN KWAMASHU**

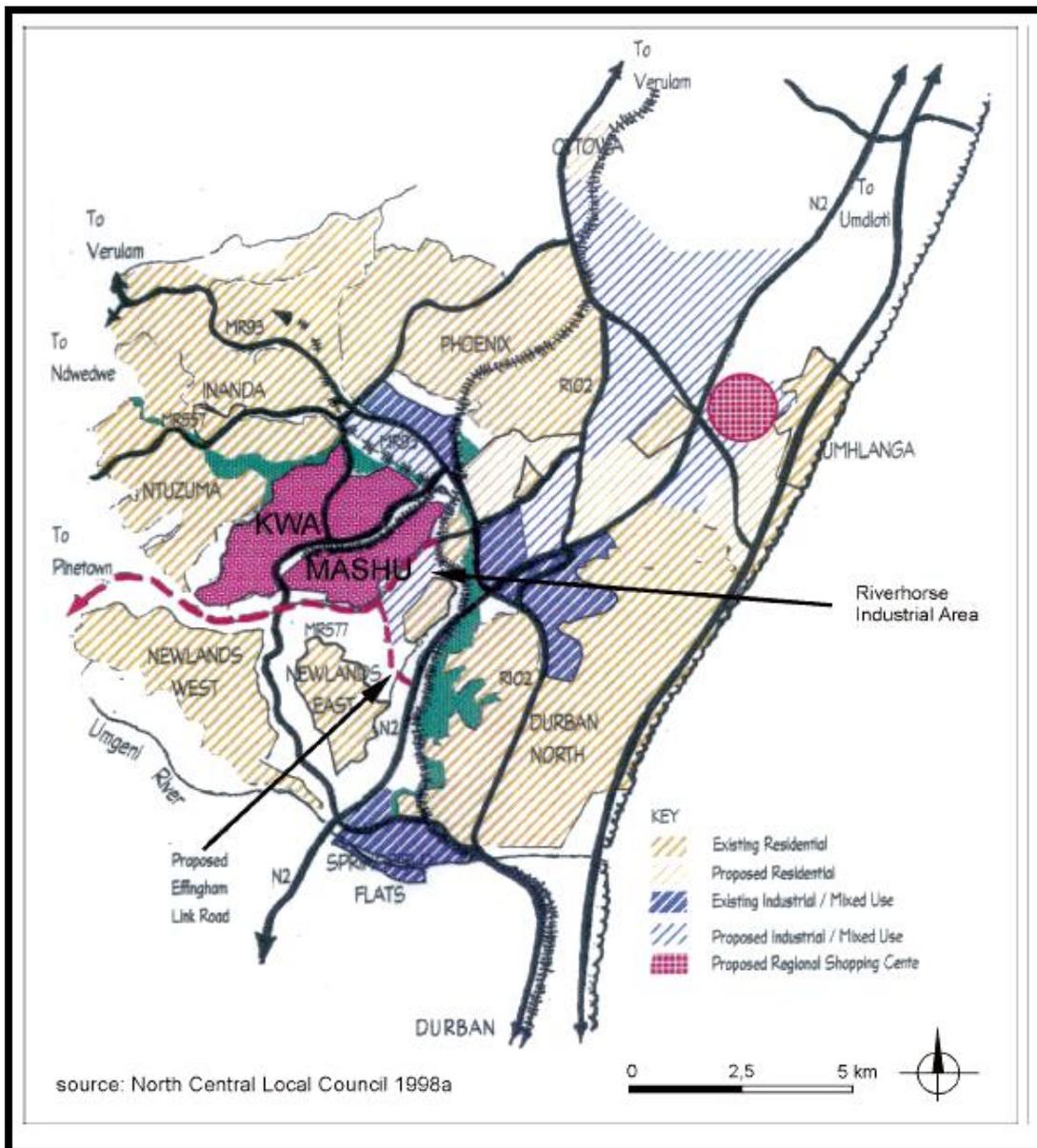
## **6.1 INTRODUCTION**

This chapter gives a background to KwaMashu, how and when it started. The chapter is mainly based on secondary data sources. KwaMashu has evolved from being administered as a dormitory town under the apartheid era to being under the eThekweni municipality's INK ABM which views it as an economic entity where there is need to foster economic growth (eThekweni Municipality 2005). Under this new dispensation, planning for KwaMashu is guided by the eThekweni IDP, land use management system (LUMS), the business plans for INK and other planning regulations (eThekweni Municipality 2005). The chapter also gives a profile of the level of development and poverty in KwaMashu.

## **6.2 KWAMASHU SPATIAL CONTEXT**

KwaMashu is located in eThekweni municipality on the east coast of South Africa within the province of Kwa-Zulu Natal (Godehart 2006; URP 2001). It is about 20km north of Durban CBD (see map 1 below). KwaMashu is an area of approximately 15 square kilometres of hilly terrain, which makes development relatively expensive. It is located to the Northwest of Durban, off the main existing transportation routes (Mohamed 2002). KwaMashu is close to the north of the city where much of the city's development has taken place. In the north, residential, commercial and office blocks have been developed in La Lucia, Umlhanga and Mt Edgecombe and Bridge city (Urban Econ 2006). Thus KwaMashu is well positioned to link up with La Lucia, Umlhanga and Mt Edgecombe and Bridge city areas. Of interest is the Phoenix industrial area which is close to the future proposed Dube Trade Port and King Shaka airport at La Mercy since it may provide a source of much needed employment (URP 2001).

**Map 1: KwaMashu and its Surroundings**



### 6.3 KWAMASHU A PLANNING BACKGROUND

KwaMashu was built on sugar cane plantations that were bought from Messrs Natal Estates Ltd. Sir Marshall Campbell was the founder of the company and a well-known public figure. The area was therefore referred to as the “Place of Marshall” (KwaMashu) (Mohamed 2002; Godehart 2006). KwaMashu was formed not as a result of proper land use planning but racial zoning. It was developed during the apartheid era in the 1950’s and in 1956 it became a housing scheme for

120 000 people most of whom were forcibly removed from Cator Manor to KwaMashu. This forced removal was completed in 1966 (Urban Renewal Report 1998).

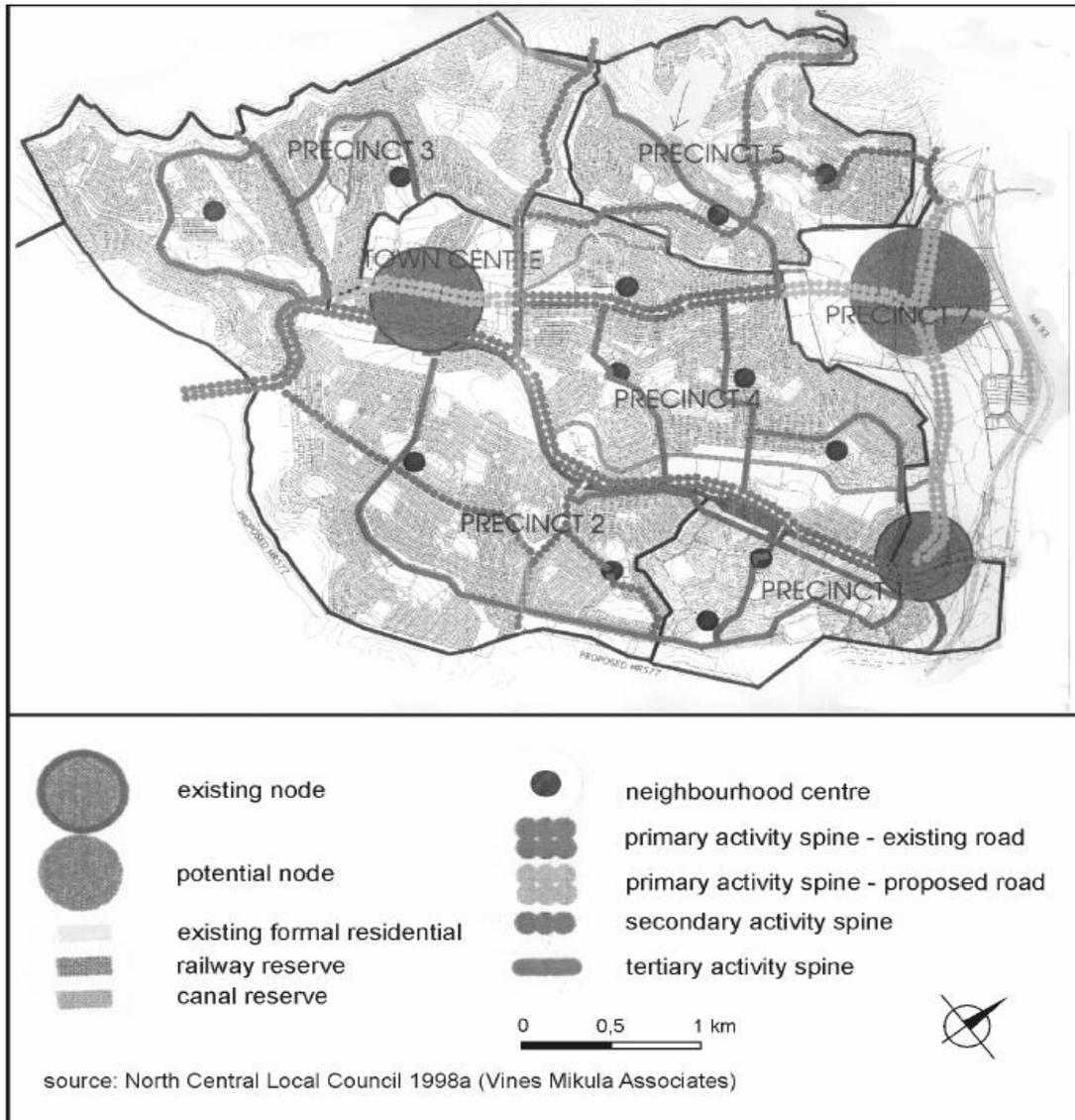
KwaMashu was built as a self-sufficient unit characterized by containment and isolation. It is a working class suburb whose administration resembled that of a labour camp (Godehart 2006). The first families moved into KwaMashu in 1958, the area was then being administered by the department of Bantu Administration. In 1977, the Kwa-Zulu government took over the administration and control of the area and KwaMashu was managed by the then Durban cooperation, which determined the standards and specifications for infrastructure and buildings. The infrastructure standards were high with tarred roads, water borne sewerage and water supply. However at that time there was no electricity. Notwithstanding the high standards, KwaMashu was never fully developed with regards to the social infrastructure and the current stock is in need of maintenance (Urban Renewal Report 2001; Godehart 2006).

KwaMashu consist of residential units A-M which evolve around a Township center. These units, as the KwaMashu Integrated Development Framework (IDF) suggests, are categorised into functional precincts based on socio economic characteristics (North Central Council 2000). These precincts are classified as shown below (See map 2 below).

- Precinct 1:Unit A
- Precinct 2:Units B, C, D
- Precinct 3:Units E; F; G; h
- Precinct 4:Units J, K, N
- Precinct 5:Units L, M
- Precinct 6:Township Centre
- Precinct 7: adjacent industrial area.

Precincts 1-5 are residential with 6 and 7 having mixed land use. Each unit consist of 1200-2300 sites with most units being uniform with the exception of unit A which was a camp for single storey barracks to accommodate migrant workers. Unit B and M are residential sites with freestanding houses (North Central Council 2000).

**Map 2: KwaMashu Precincts**



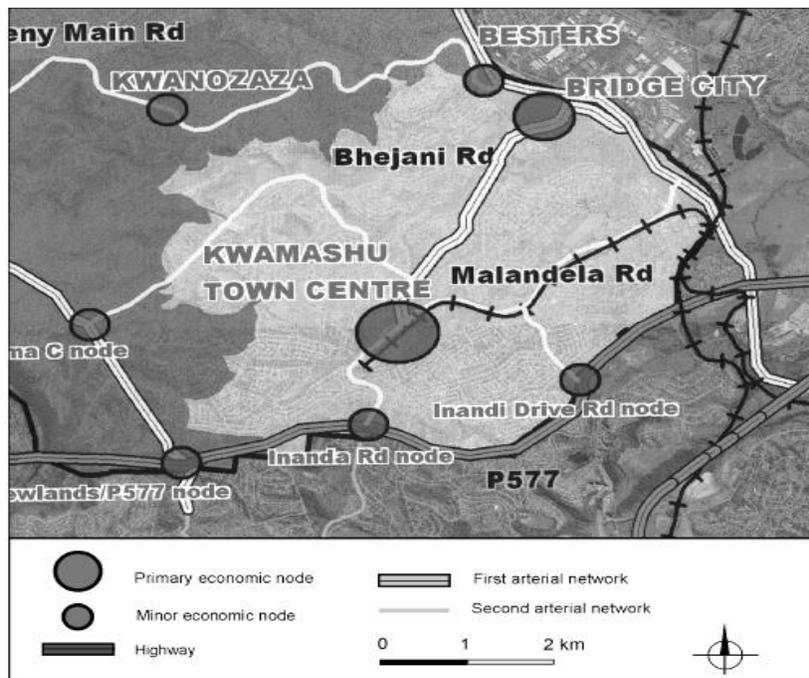
Source: Adapted from Godehart 2006

All units contain housing related infrastructure such as schools, and each unit evolves around a neighbourhood center (Urban Renewal Report 1998). Precinct 2 and 4 are described as the wealthiest, precinct 3 as poorer but well established and precinct five as the poorest. Unit L in precinct 5 has unsuitable housing conditions since two families share each site and a house (North Central Council 2000). Unit A in precinct 1 has a high male bias; in 1996 it had the highest level of crime. Unit I is also notorious for high levels of crime.

### 6.3.1 Planning Context in KwaMashu

Before 2000 planning in KwaMashu was informed by the KwaMashu Integrated Development Framework. After the municipal re-demarcation in 2000, it was superseded by the eThekweni IDP (Godehart 2006). This IDP later informed business plans of the URP/ABM in INK. The business plans covered projects with a value of R6 billion mostly in infrastructure and housing provision. There are 2 business plans with the second one deviating from infrastructure provision to social and human investment with promotion of entrepreneurs being key (ibid). Apart from the business plans, a spatial framework (SDF) was developed in 2006. This SDF is based on a system of nodes and corridors (map 3 below). These nodes are mainly at intersections of main routes since they would rely on vehicular traffic and they do not cater for pedestrians (North central Council 2000). These nodes include the Bridge city which would link INK to the Northern commercial nodes, KwaMashu Town center and other smaller nodes. It still remains to be seen whether the smaller nodes will become economically viable not just white elephants serving as remnants of a failed policy.

**Map 3: Spatial Development Framework INK Area 2005**



Source: Adapted from Godehart 2006.

Planning in KwaMashu and the INK area is also informed by the Land Use Management System (LUMS) which was initially prepared for the Kwa-Zulu Natal province with the eThekweni later developing its own system (Khan et al 2001). LUMS for eThekweni was developed in 1998 with KwaMashu being part of the pilot study. From an LUMS viewpoint the city should develop a single town planning scheme where land use is classified after the collection of baseline information. It is argued that LUMS is much better for planning since it is simpler and more logical (eThekweni Municipality Undated; Godehart 2006). However there remains some difficulty and confusion within the eThekweni municipality in implementing LUMS in townships. This is as a result of the town planning legislation in KwaMashu that has not been abrogated. Moreover the new planning schemes by the city does not complement well with the obsolete legislation in KwaMashu which was formerly administered by the Kwa-Zulu homeland.

KwaMashu has a town planning scheme which identifies various land uses. The planning scheme is a means of creating environments where people work, live and play in a safe and quality environment without impacting negatively on others lives (eThekweni Municipality undated). The scheme divides land use in KwaMashu into 14 groups, with a matrix which showing what land uses are allowed or not in an area. Moreover it ensures that development is coordinated, harmonious, and sustainable through setting aside areas (such the KwaMashu Town center) where small business can operate without impacting negatively on other peoples lives.

The planning scheme also contains a set of regulations which guide business development. These regulations amongst others include procedures for applying for change of use; the shape, size and position of buildings allowed, type of business ventures allowed in KwaMashu. For example the scheme lays specific guidelines with regards to spaza shops policy, panel beating and welding since these activities if located within the residential units are “obnoxious” (eThekweni Municipality 2007; Godehart 2006). Nevertheless the impact of the LUMS and planning scheme in creating harmonious development still requires time and commitment from the municipality for its full benefits to be realised.

### **6.3.2 Planning for LED in KwaMashu**

At city level there appears to be a strong technical leadership with the Mayor and City Manager playing a guiding role in facilitating economic development (Godehart 2006; Nel 2001). There is a dedicated team which manages the INK office in KwaMashu, which demonstrates the municipality's effort in fostering LED. The INK project also aligns itself to the Integrated Development Plan (IDP) of the city (eThekweni Municipality 2005). The INK programme also attempts to improve its governance and capacity with the hosting of workshops and forums, wherein the community is briefed on developments in the area. This forum suggests that development is bottom up and endogenous. It is argued that if development is from below there is a great chance of success since the people have a sense of ownership and it also aids in making development sustainable unlike where aid is concerned (Chambers 1985).

## **6.4 KWAMASHU PROFILE**

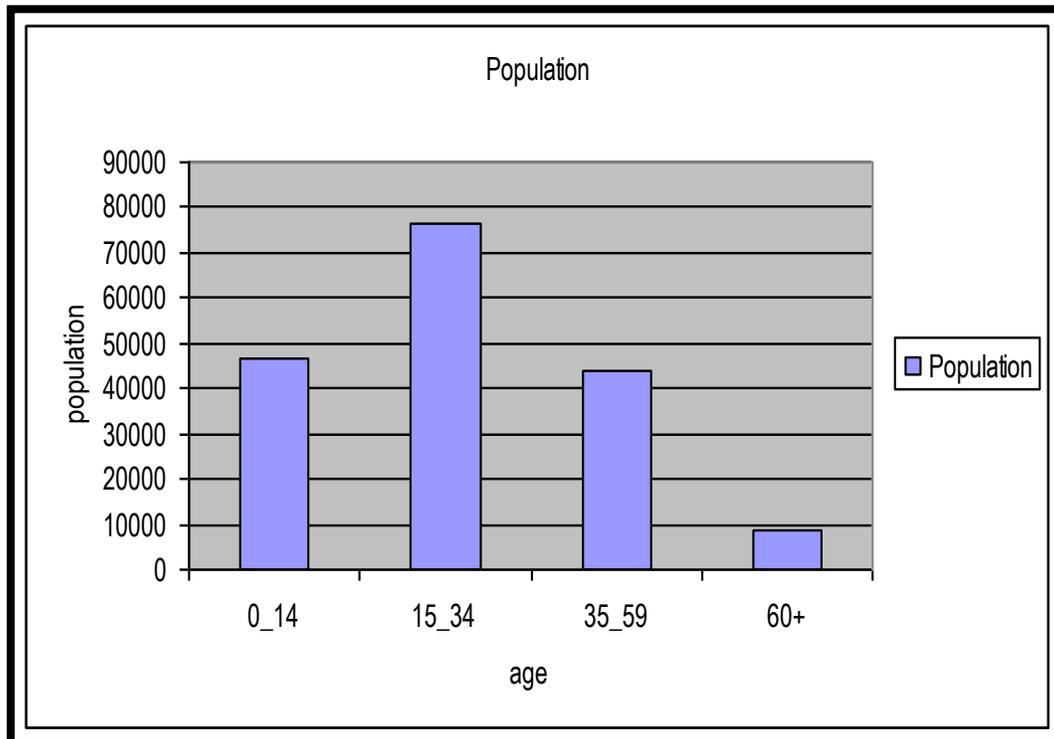
This section discusses the profile of KwaMashu and includes demography, education, economy, infrastructure, income and environment of the township. The attributes of the profile forms a benchmark for measuring the level of poverty and development in KwaMashu. Profiling KwaMashu is also essential since it has a bearing on attracting new investors into the area, promoting the start up of new SME's and strengthening existing SME's. For example if people in KwaMashu have a high disposable income it will attract property developers to invest in the area so as to tap on that population (Lighthelm 2007)

### **6.4.1 Demographic profile**

The population of KwaMashu according to the (Census 2001) is approximately 121 000, accommodating 4% of eThekweni Municipality's population. As of 2005 KwaMashu's population has increased to 175 914 meaning that it has a high rate of population increase pegged at 5.7 by Statistics South Africa (Department of local Government 2005). The high rate of population increase poses serious planning challenges meaning that the infrastructure and services have to be upgraded to meet the needs of the increasing population, so as to ensure that standards do not

deteriorate with pressure on infrastructure and services. KwaMashu population consists of a youthful population accounting for of 43.3 % of the population (DPLG 2005) (see figure 12 below).

**Figure 12: Population by Age Structure in KwaMashu**



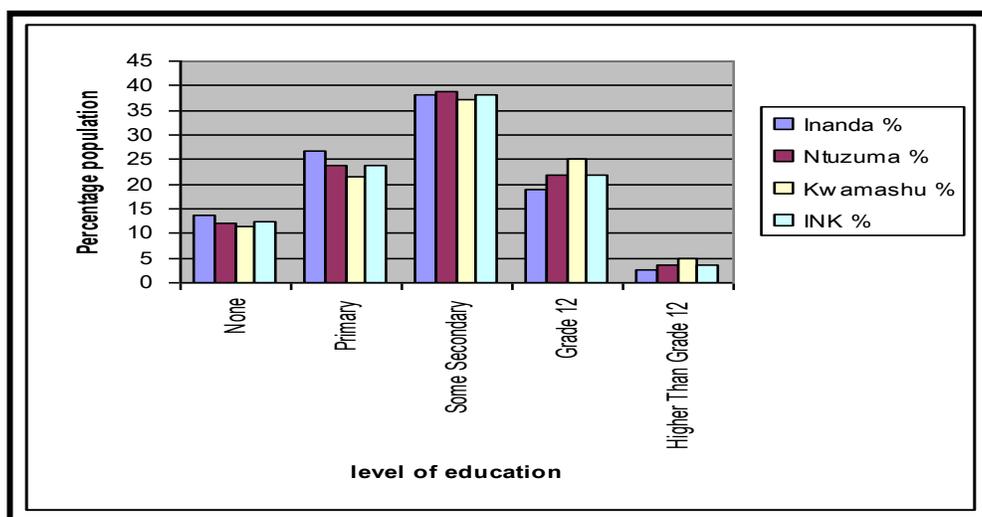
Source: Department of Local Government (2005)

The challenge therefore for KwaMashu is providing means of employment for this population. Promoting start-ups of SME's is one of the strategies employed by the INK ABM as a means of providing self employment. Furthermore the young population also means that there is need for the provision of sufficient schools. The population structure as discussed above has a bearing on the planning for infrastructure/services, and planning for LED strategies. For example given the majority of KwaMashu's population being between 15-34 years of age LED strategies may therefore include entrepreneurship training (Meyer –Stamer 2005) From the above graph the population of the people above 60 is small constituting only 5.1% of the population. Such a small percentage indicates that there is low life expectancy which may be due to poor standard of living, the impact of HIV AIDs, inadequate health facilities and being unable to afford healthcare.

## 6.4.2 Education and Skills level

The skills and education levels is crucial since there is a strong correlation with education attainment and poverty and economic growth. KwaMashu has low levels of skills and education with given the fact that only 3.7% has an education qualification higher than grade 12 (See figure 13 below). This is in stark contrast to Massachusetts discussed in chapter 3 with 40% of its population having a bachelor's degree and above (EDA 2006). The Massachusetts case study demonstrates that education can be a formidable driver of economic growth. Thus the low level of education attainment partly explains the low level of economic growth in KwaMashu. Moreover, it has been observed that in South Africa and KwaMashu the level of education strongly correlates with the standard of living, given the fact that 58% of adults with no education in south Africa are poor and that only 5% of the adults with tertiary education are poor(Woolard 2002). Furthermore the low levels of education determine income levels, with the highly educated earning more thus the high incidence of poverty in KwaMashu partly lies in the low level of education as discussed above. Given the low level of education it suggests that the residents will be limited to low paying jobs (casual or unskilled). The level of education also impacts on the type of LED strategies which can be employed. To sustain programs some residents have to undergo literacy programs first given the fact that 11% of the adult population have no form of education (Census 2001).

**Figure 13: Education Attainment in KwaMashu**



Source: Census 2001

### 6.4.3 Employment and Income Levels

Employment and poverty in South Africa are strongly correlated since unemployment rate in poor households is 52% in comparison to a national rate of 29 % (Woolard 2002). KwaMashu too has a higher unemployment rate of approximately 60% which is well above the national average of 29 % (see table 9 below) (Census 2001). Moreover the unemployment rate is much higher than the Durban's average. There is a higher proportion of economically active people as compared to those who actually employed in KwaMashu. This creates a high dependency ratio meaning those who are employed take care of their households which further exacerbates the low quality of life.

**Table 9: Employment levels in KwaMashu**

| Area     | Population | Employed | Unemployed | Econ-Active | Econ-active (%) | Unemployed (%) |
|----------|------------|----------|------------|-------------|-----------------|----------------|
| KwaMashu | 157,156    | 3,2106   | 45,969     | 78,075      | 49.7            | 58.9           |
| Durban   | 3 090 122  | 591,026  | 382,182    | n/a         | n/a             | 43%            |

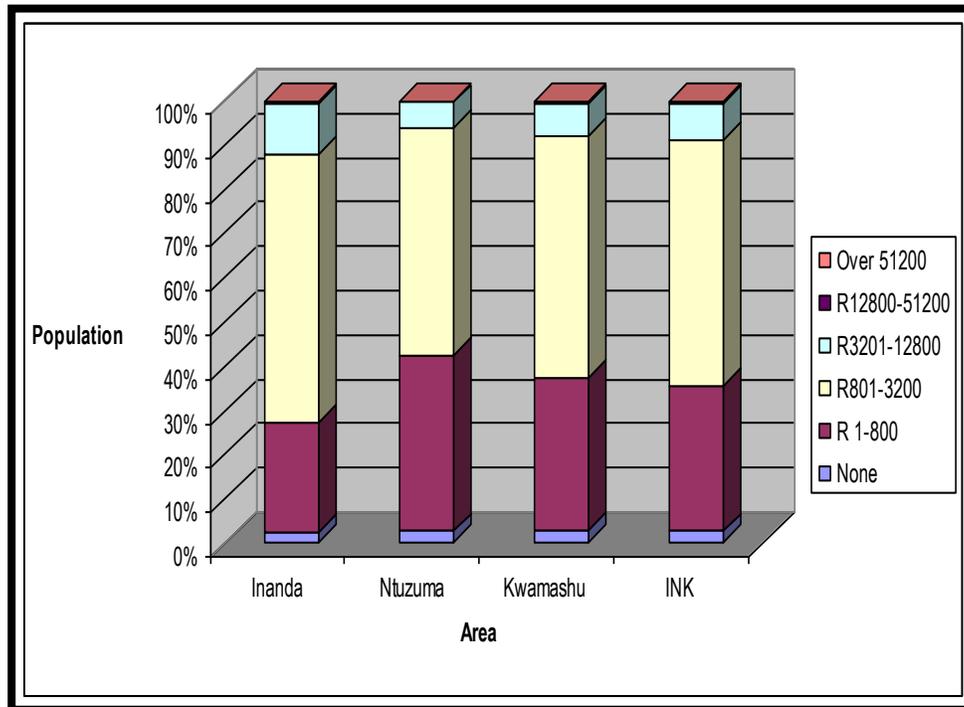
Source: Census 2001

Unemployment is also attributable to the fact that KwaMashu is a residential area with a very small economic base, thus residents have to find employment elsewhere outside the township. Moreover the low levels of skills and education are also a factor meaning at times the residents are unemployable except for low paying casual jobs which do not help the people to escape from poverty. According to secondary data, as of 2005 unemployment in KwaMashu had declined to 40.5%, this may be attributable to the LED strategies being employed by the INK ABM which promote entrepreneurship (Department of Local government 2005).

The income levels of KwaMashu are a function of the levels of skills and education, a legacy of apartheid, and the little economic activity in the area. In 2001, 35% of households in KwaMashu (See figure 14 below) earned less than R800 per month which was below the national poverty line of R800 per month (Woolard 2002). Converting the R800 per month to 1USD per day would mean that each household member spent 0.9 USD which is below the international poverty line of .1USD

per day poverty line (UN 2000)<sup>2</sup>. In 2005 the situation had marginally improved with 71.5% of the households were earning on R1600 per month (DPLG 2005). Given the low average household income the quality of life and standard of living is severely compromised if a household has a more dependants.

**Figure 14: Household Income in INK (rand /month)**



Source: Census 2001

#### 6.4.4 Economic Profile

The economic base of KwaMashu is small because the area is largely a residential area with little economic, industrial or commercial activity taking place within its confines. Most industrial and economic activity takes place outside KwaMashu particularly in the Phoenix Industrial area and Umhlanga commercial nodes which is within close proximity to KwaMashu (see figure 8) (URP 2001; Urban Econ 2006; Godehart 2006). The low level of economic activity is also attributable to poor urban infrastructure, low level of skills and education which all hamper business development.

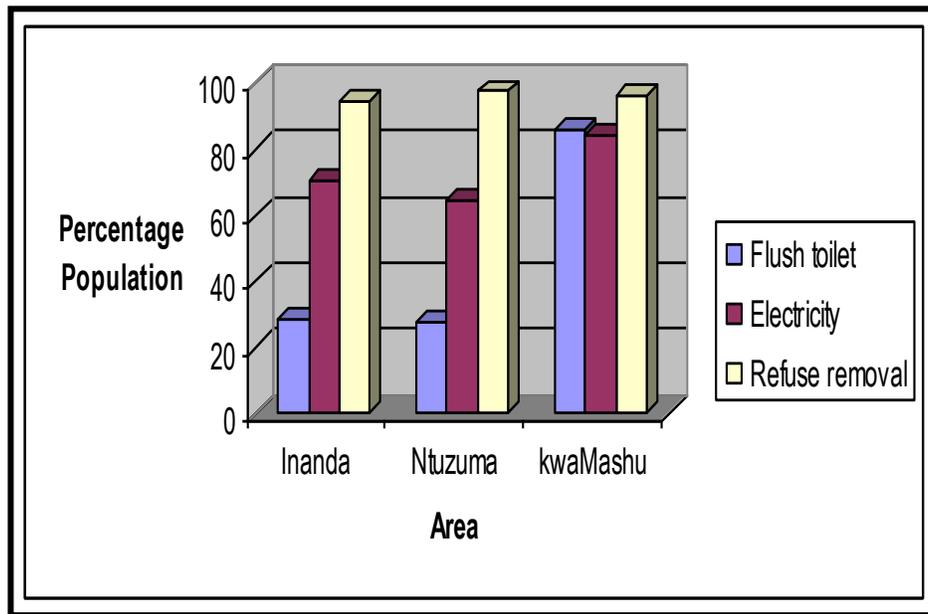
<sup>2</sup> The exchange rate used when converting rand to US dollar is 1 rand to 7 US dollars which was prevailing at that time. The average household size used is 4 to calculate what each household member spent per day (UN 2000; Hoogeveen and Ozler 2004; Woolard 2002)

Firms are also not willing to locate in KwaMashu because it is not spatially integrated into the city's economic fabric and also security concerns. This spatial isolation wherein KwaMashu is placed at the periphery of the city and far from major economic nodes is attributable to apartheid planning. Apartheid distributed resources unequally (access to capital and land) thereby marginalizing a large sector of the population to menial and poorly paid sectors of the labor market (Woolard 2002). Nevertheless with the new democratic dispensation using the IDP there are attempts to try and integrate KwaMashu into the economic fabric of Durban. This has been attempted through the Bridge city project which is currently in progress. Amongst other things the project seeks to link KwaMashu to the Northern areas in Durban where much commercial development is taking place. With regards to economic potential there is little potential for the development of industrial processing, manufacturing and agriculture sector. This is because of the existence of the of a competitive industry and manufacturing cluster elsewhere in Durban and shortage of land (DPLG 2005). However there is much potential in retail opportunities since there is a strong demand for retail services. This has been the premise behind the development of the KwaMashu town center(Ibid).Other projects which such as the Bridge city discussed above also seek to tap on the strong demand of retail services in KwaMashu.

#### **6.4.5 Service Delivery and Infrastructure**

The level of services and infrastructure is essential because it determines human capabilities which include basic human needs such as water and housing (Sen 1999; World Bank 2003). The level of service also determines the quality of life and it forms a critical component of the city development index (CDI). The CDI measures the level of development and poverty in urban areas (UNCHS 2003; Sen 1999; World Bank 2003). Moreover the presence of a well maintained hard infrastructure (electricity, roads, water reticulations system and sewage system) and services is a major determinant in attracting investors in an area since it reduces setup costs (Meyer-Stammer 2003). The level of service and infrastructure in KwaMashu together with INK is summarised in the (figure 15 below).

**Figure 15: Service Delivery in KwaMashu and INK**



Source: Census 2001

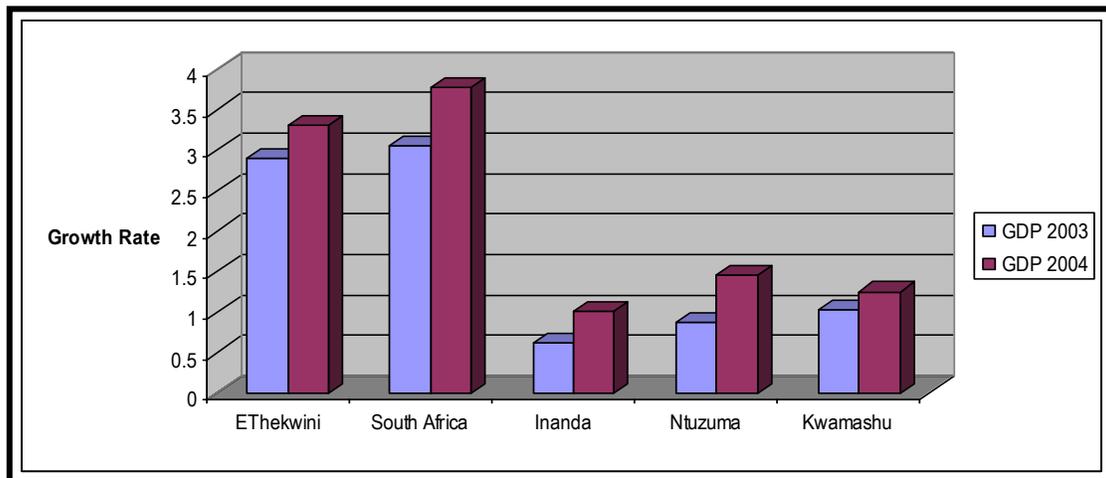
KwaMashu has better access to infrastructure services than the rest of INK. 20% of the residents in KwaMashu have access to water in their houses while the rest have to fetch it from designated water collection points, thus one basic need of having clean accessible water is not sufficiently met (Urban Econ 2006). Thus KwaMashu falls short of meeting the right to clean safe water as stipulated in Millennium Development Goals wherein there is concerted effort to reduce by half the proportion of people without sustainable access to safe drinking water (UN 2005).

The Infrastructure and services in KwaMashu is in need of upgrade (Urban Renewal Report 1998). The water, electricity (street lighting) and telephone network is prone to vandalism. Residents in the area are fond of non payment of services which hampers the local authority's ability to provide services, thus there is slow cost recovery in services (Godehart 2006). Coupled with this is the lack of coordination between national and local governments in the provision of services which further compromises service delivery (ibid). The public transport system is not as reliable as there are no timetables and internal routes are not well serviced. Residents pointed out that traffic policing is inadequate. The railway line which divides KwaMashu into two also restricts mobility. Nevertheless it is important to note that KwaMashu has the highest number of rail commuters in Durban (Urban Renewal Report 1998).

## 6.4.6 Gross Domestic Product

The Gross Domestic product (GDP) determines an area's economic output and economic potential of an area. A high GDP suggest a vibrant industrial, commercial sector with a low GDP suggesting a poor industrial and commercial sector (EDA 2006). The GDP is also an indicator of the level of average income earned in a geographic area (UNCHS 2003). KwaMashu in 2004 experienced a GDP growth rate of 1.25 % which is well below the eThekweni and South African average which was measured at 3.3% and 3.77% respectively (Urban Econ 2006) (See figure 16 below).

**Figure 16: Comparison of Growth Rates between INK and South Africa**



Source; Urban Econ 2006

What emerges from the above graph is that the GDP growth rate in KwaMashu increased slightly by 0.22% from 2003 to 2004, which may be attributable to a boost in the retail sector by the KwaMashu Township project. This was an anchor project which included building infrastructure and promoting SME's. However the GDP for KwaMashu still remains very low as compared to national average thus there is need to mainstream KwaMashu's economy into the Durban and national value chain. The low growth rate points out to very low, economic, commercial and industrial activity. Thus there is serious need for investment and retention of that investment in KwaMashu which is key for growing and sustaining the economy in KwaMashu.

## 6.4.7 Environment

The Environment in KwaMashu is under considerable pressure (Urban Renewal Report 1998). The open spaces are under pressure since there is need for housing. Moreover most of the land is steep thus it is difficult to develop and pollution is also of concern. Waste is dumped in undesignated places and the waterways are clogged with rubbish and they are in need of refurbishments (ibid). The people are opposed to urban agriculture even though it is on a small scale (URP 1998). Informal settlements mostly found on low lying areas also pose concerns since they are prone to flooding (Urban Renewal Report 1998).

## 6.4.8 Profile Implications on Poverty and Development in KwaMashu

From the above discussion it emerges that KwaMashu together with INK have low levels of development and high incidence of poverty. Development and poverty are not only assessed using money metric measures but non metric measures such as low level of education and poor access to water. There are a variety of factors which impede development in KwaMashu (See table 10 below). The obstacles have prompted the national and local government to put in places development strategies such as the INK Area Based Management Program (INK ABM) to try and address development challenges. These include supporting SME's so that their businesses to grow, with the ultimate aim or reducing poverty in KwaMashu. This is examined in detail in the next chapter.

**Table 10: Obstacles to development in KwaMashu**

| <b>Obstacles to Development</b>                 |
|---|
| Inadequate and poorly maintained infrastructure |
| High levels of poverty and unemployment         |
| Spatial disintegration                          |
| Low level of human development                  |
| Weak industrial and manufacturing sector        |
| High levels of crime                            |
| High rate of natural increase                   |
| HIV and AIDS                                    |
| Low GDP   |

Source: DPLG 2007; Godehart 2006

Poverty manifest itself in various forms in KwaMashu namely low income, lack of basic human capabilities, lack of basic needs and social exclusion. These factors interact and reinforce each to continually trap residents in poverty. For example the lack of education impacts on the employability and potential income of the residents. Thus there needs to be a mixture of poverty alleviation efforts. These efforts are informed by a profile of indicators on poverty in KwaMashu. A poverty profile with indicators, its significance and its extent in KwaMashu is summarised below.

**Table 11: Poverty profile KwaMashu**

|                                    | Indicator                 | Significance   | National Average | Kwa-Mashu level  |
|------------------------------------|---------------------------|--|------------------|--|
| Income/Momeney metric measures     | Unemployment /employment  | It determines income, type of jobs and no of dependents  | 27.80%           | 58%  |
|                                    | Poverty line              | Cut of between poor and non poor   | -                | -  |
|                                    | Income/Wage level         | Reflects productivity of the workforce and its comparison in terms of education skills and experience  | -                | 54.8 % of the households earn between R801 to 3200 per month   |
|                                    | Gross domestic production | level of economic production in an are   | 3.70%            | 1.25%  |
| Basic needs and human capabilities | Access to water           | Its associated with better health and time saving. It has implications for women and children and it's a defector measure of tenure security | 68.40%           | 20%  |
|                                    | Acces to Flsuh Toilet     |  | -                | 86%  |
|                                    | Access to Refuse Removal  | Its associated with better health and it shows levels of service delivery of local government  | 60%              | 96.24%   |
|                                    | Electricity               | It impacts on energy use ,service delivery and it is a defacto measure of tenure security  | 80.2             | 84.16%   |
|                                    | Level of education        | Impacts heavily on employability, income and mobility of population  | -                | 4.75% with higher than grade 12, 0.3% with a bachelors and above, 37.11% with some secondary education |
|                                    | Literacy rate             | shows level of education   | 88%              | 48%  |

Sources: SA Statistic Household survey 2002; Census 2001

From the above table poverty is multidimensional: it is not only based on income alone but includes basic needs and human capabilities. With regard to income indicators, there is a high level of unemployment in KwaMashu. The unemployment level is significantly higher than the national average points out to the lack of an economic base and industrial base to absorb the unemployed. Furthermore the majority of the employed earn a meagre income given the fact that 54.8 % of the households earn between R 801 to R 3200 per month which further compromises the standard of living and quality of life of the residents in KwaMashu. Thus there is needed to grow the economy of KwaMashu. For instance promoting SME's and attracting and retaining investment in the area.

The literacy levels in KwaMashu are significantly lower at 48% compared to the national average of 88%. This is likely to have an impact on the success of poverty alleviation programs such skills development which can make sure that if people escape from poverty they will not fall into poverty again, meaning that programs can become sustainable in the long run. Furthermore the level of education is low given the fact that only 37% of the population has some secondary education with only 0.3% of the population having a bachelor's degree or above. Such low levels of education attainment limit the mobility of residents meaning the majority can only be employed in unskilled, low paying casual jobs. With regards to (Sen's 1999) human capabilities, residents of KwaMashu have low levels of capabilities meaning that they are unable to make many choices about their lives.

KwaMashu has significantly better access to services and infrastructure than the national average. Nevertheless KwaMashu still lags far behind the national average with regards its 20% access to water. This low level of access to water has repercussion for hygiene which adversely affects health and ultimately economic production meaning level of production is curtailed. It also has important implications for women since they would spend much time in fetching water whose time could be used in entrepreneurial activities. KwaMashu has 86% of the population having access to flush toilet. KwaMashu is also well serviced in terms of refuse removal with 96% of the households having access. In essence it can be argued that the residents live in a healthy environmental given the high score in sanitation and refuse removal since if these are low it leads to health hazards, Such high scores are also hard factors which enable business to operate smoothly. In terms of

access to electricity approximately 84 % of the population has access to electricity. Such a high score is important for business operation since most business run on electrical energy.

In summary it is clear that KwaMashu has high levels of poverty in income and or money metric terms. Human poverty is also high given the low level of education, low literacy rate. However with regard basic needs KwaMashu is relatively well serviced in terms of electricity, sanitation and refusal removal. Nevertheless there still needs further improvement with regards the low level access to water. This is further reinforced in the discussion that follows which discusses the city development index for KwaMashu.

## 6.5. CALCULATION OF CITY DEVELOPMENT INDEX FOR KWAMASHU

The City Development Index (CDI) is a measure of access to urban facilities and a measure of average wellbeing in cities (UNCHS 2003). The CDI is a composite measure of urban poverty with four different measures namely infrastructure, waste, health, education and city product (UNCHS 2003). Each sub-index, ranges from 0-100 with 0 being low, 50 being medium and 100 high levels of access and development. The formula for the CDI and its sub indices as given by UNCHS is summarised below;

### Formula for CDI

| Index  | Formula   |
|--|---|
| Infrastructure   | = 25xwater connections+25xsewage+25xelectricity+25xTelephone  |
| Waste  | = Wastewater Treatedx50+Formal solid waste disposalx50        |
| Health   | = (life expectancy-25) x50/60+ (32-Child mortality) x50/31.92 |
| Education  | = literacyx25+combined enrolment x 25                         |
| Product  | = (log city product-4.61)x100/5.99                            |
| City Development Index = (infrastructure Index + Waste index+ Education Index + Health Index + City Product Index)/5 |   |

Data Source: Census 2001

Using the above formula the indices for KwaMashu are illustrated in the matrix below. The calculations are based on the SA Statistics Census 2001 statistics. The health, waste and education index educations are not calculated due to the unavailability of reliable data.

**Matrix for City Development Index for KwaMashu**

|                             | <b>KwaMashu</b> | <b>Maximum</b> | <b>Durban</b> | <b>Maximum</b> |
|-----------------------------|-----------------|----------------|---------------|----------------|
| <b>Infrastructure Index</b> | 55.5            | 100            | -             | 100            |
| <b>Product Index</b>        | 46              | 100            | 93            | 100            |

Source: Authors construct

KwaMashu has an infrastructure index of 55.5 out of a possible 100 thus it has a medium developed level of infrastructure and access to services (Water, sewerage, electricity and telephones). Thus there is need for the municipality to improve access to services and infrastructure namely: water, sewerage, electricity and telephone access in KwaMashu.

KwaMashu has a product index of 46 out of a possible maximum of 100, which is well below the medium level thus it has low levels of economic activity. This is as a result of the fact that under apartheid KwaMashu was previously disadvantaged with most economic and industrial development taking place outside KwaMashu leaving it being mainly a dormitory township. The low product index also points out that there is high unemployment at 58% in KwaMashu with the residents earning low incomes (Census 2001). It also points out to a poor economic base in KwaMashu where most of the enterprises in KwaMashu cater for the already saturated market in KwaMashu (DPLG and Business Trust 2007). The low product index of KwaMashu is in stark with Durban's product's index of 93 out of a maximum possible 100. Durban's product index is twice as large as KwaMashu which points out to skewed planning which disadvantaged areas like KwaMashu. Furthermore it confirms that Durban is a major manufacturing and economic hub given that it contributes close to three quarters of Kwa-Zulu Natal's gross domestic product.

## 6.6 SUMMARY OF CHAPTER

Planning in KwaMashu is guided by the eThekweni Integrated Development Plan IDP, the eThekweni land use management systems and INK ABM business plans. KwaMashu is located 20km to the north east of Durban's CBD. KwaMashu was originally a dormitory township with hardly any economic activity within its confines. It has low levels of development and high levels of poverty. KwaMashu has high levels of unemployment; low literacy rate, poor access to water and the majority of the residents are low income earners. The low levels of development and high level of poverty is further reinforced by the medium infrastructure index of 55.5 and a low product index of 46. The low product index also points to the fact that KwaMashu is not a high income earning area and that most income is earned and spent outside of KwaMashu. The low product index is also a function of the low level of human capabilities which limits the choices available to residents.

# **CHAPTER 7: LOCAL ECONOMIC DEVELOPMENT STRATEGIES IN KWAMASHU**

## **7.0 INTRODUCTION**

In this chapter LED strategies in KwaMashu are described. LED strategies in KwaMashu are currently implemented under the Inanda Ntuzuma KwaMashu Area Based Management Program (INK ABM). The strategies discussed herein mainly focus on income enhancement and infrastructure upgrading as identified by the INK ABM, since they impact on the SME's in KwaMashu. The various strategies have had mixed results in their outcomes. The research establishes through primary data and secondary data that challenges during implementation of LED strategies have had an impact on the success of LED strategies. Furthermore the chapter discusses the typology of SME's in KwaMashu and describes the anchor LED project (KwaMashu Township Redevelopment).

## **7.1 BACKGROUND TO THE URBAN RENEWAL PROGRAM AND INK ABM**

The Urban Renewal Program (URP) is a presidential program introduced by the then State President Thabo Mbeki in year 2001 to address underdevelopment in the most severely impoverished rural and urban areas ("poverty nodes") in South Africa. The Urban Renewal is implemented by the Department of Provincial and Local Government (DPLG). Inanda Ntuzuma and KwaMashu known as INK were identified amongst the urban poverty nodes by the URP. The INK areas have the dual status of being a presidential poverty node within the national Urban Renewal Programme (URP), as well as being one of five Area Based Management (ABM) Learning Areas within the eThekweni Municipality (DPLG and Business Trust 2007). The current practice by the eThekweni Municipality is to manage INK as one administrative unit. There is an INK office in KwaMashu which is responsible for the development of the entire area. The INK office administers both the Urban Renewal Programme (URP) and the Area Based Management (ABM) Programme (DPLG and Business Trust 2007).

The INK Office coordinates the planning, budgeting and implementation of LED projects in INK (DPLG 2007). The INK office manages development efforts by integrating development efforts by

various stakeholders so that development is not compartmentalized as was the case under the apartheid regime (Interview Program Manager INK ABM 2008). In trying to speed up development efforts INK office in 2007 established an office in KwaMashu in response to criticisms that it was not close to the people since it was located in Durban's CBD. It is hoped that this relocation to KwaMashu is not too late for the achievement of the programs goals. The INK receives funding from the European Union which supplies 15% of the overall budget with the rest coming from the eThekweni municipality and the national government. This funding is deemed to end in 2008 thus its future remains uncertain (Business Trust and DPLG 2007). This uncertainty is likely to impact negatively on the implementation of the program in KwaMashu meaning the fight against poverty maybe lost.

The INK ABM/URP was established to turn the tide against poverty in INK (see table below). From the table it is clear that there is high incidence of poverty in INK with over 75 % of the households falling below the household subsistence level of R 19,200 per annum meaning there is high income poverty.

**Table12: Poverty Profile INK**

|  | INK (%) | National Average (%) | Difference with National Average (%) |
|--|---------|----------------------|--------------------------------------|
| Poverty Incidence(% of households below HSL <sup>3</sup> ) | 75.2    | 65.0                 | 9.9                                  |
| Employment rate  | 27.4    | 33.7                 | 6.3                                  |
| Households without access to electricity <sup>4</sup>      | 26.1    | 30.3                 | 4.2                                  |
| Households without basic access to Water <sup>5</sup>      | 30.3    | 27.9                 | 2.4                                  |
| Access to Education  | 36.0    | 40.0                 | 4.0                                  |
| % of adults with low or no education <sup>6</sup>          | 36.1    | 40.3                 | 4.3                                  |

Source: DPLG 2007

<sup>3</sup> HSL = Household Subsistence Level and is equal to R19,200 per annum (R1,600 per month)

<sup>4</sup> Based on households that do not use electricity as a source for lighting

<sup>5</sup> Defined as not having piped water within a distance of 200m of dwelling (govt. policy on minimum basic human need);

<sup>6</sup> All adults aged 20+ with no schooling at secondary level or above (Statistics SA indicator of educational deprivation)

The high income poverty may be attributable to the high unemployment rate coupled with the high percentage of adults with no education. It is because of the above poverty statistics that the government together with the eThekweni municipality engaged in the INK URP/ABM so as to turn the tide against poverty in KwaMashu. However it can be argued that INK is an area which has medium developed infrastructure with 74% and 70% with access to electricity and water respectively. However significant proportions are without these services.

The INK URP/ABM has four key impact areas to address poverty namely; infrastructure investment impact area; living environments impact area; integrated governance impact area and the income enhancement impact area which is the focus of this research (see table 13). From the table it is clear that the URP/INK ABM is a means of integrating development efforts within KwaMashu. It is a means of creating complementary development efforts which reinforce each other, out of a realization that poverty is multi-faceted and needs various complementary poverty alleviation strategies.

This study focused on assessments of the income and infrastructure impact areas, mainly its impact on SME entrepreneurs and to a lesser extent the households in KwaMashu. The study assessed whether infrastructure investment impact area's achieved its desired outcome is of coordinating infrastructure delivery (especially via spatial planning and urban design) in the INK. The assessments is mainly based on KwaMashu Township Center (KMTC) redevelopment which is an anchor project for the INK ABM. Assessment is made on how the anchor project has impacted on the business operation of entrepreneurs at KMTC which is the economic hub of INK.

The income enhancement area brings to the fore economic growth, poverty alleviation and development. The study assesses how SME's have grown in terms of assets, market share, employment, human capabilities and income as a result of SME support provide by the INK ABM. It is argued that promoting SME's is key to poverty alleviation given the high levels of income poverty within KwaMashu (World Bank 2000). Thus eThekweni municipality together with the INK URP/ABM have put in place a deliberate policy to support SME's which is illustrated below.

**Table 13: SUMMARY OF URBAN RENEWAL PROGRAM/INK ABM PROGRAM**

| <b>Purpose of INK project</b>  | <b>Objectives</b>   | <b>Outcomes</b>                       | <b>Partners in INK</b>  | <b>What Guides the INK program</b>   |
|--|---|---------------------------------------|---|--|
| Integrate government at all levels (horizontal and vertical alignment).                              | Eradicate poverty and underdevelopment  | Integrated Governance Impact Area     | National and Provincial Government Departments  | Joint Government Business Plan on INK; National Legislation and Policies                     |
| Promote collaboration between INK management and National, Provincial and Municipal Line Departments | Building socially cohesive communities  | Living Environments Impact Area       | INK Community Based organisations (CBO's), NGO's, Non profit Organisations(NPO's), and residents. | 5 year Development Plan; National Legislation and Policies                                   |
| Bring to the fore the issue of co-operative governance   | Ensuring equity, building capacity to deliver                                       | Income Enhancement Impact Area        | Line Departments at Local Government level.   | Integrated Development Plan and City Priorities ;National Legislation and Policies           |
| Create synergies and partnerships aimed at improving the lives of INK residents                      | Ensure integration of resources across the three spheres target at poverty pockets. | Infrastructure Investment Impact Area | European Union  | Kwa-Zulu Natal Provincial Growth and Development Strategy ;National Legislation and Policies |

Source DPLG and Business Trust 2007

From the table 12 it is clear that there is the INK ABM is in line with national and provincial policies. Policies stem from the national government and are implemented at provincial level up to the local government level. Likewise the INK ABM is implemented in KwaMashu and is informed by the national, provincial and Durban's city policies. The city of Durban has a policy with regards SME's so that their potential is realised.

## **7.2 DURBAN'S SME POLICY**

The eThekweni Municipality SME Strategy presents a way forward in promoting and developing the SME sector in Durban over the next ten years (2006 – 2016). There is overwhelming evidence of the important role the SME sector plays in growing the economies of nations all over the world and poverty alleviation (Nadvi 1999; Schumpeter 1976; Kempner 2005 cited by EDA 2005). It is to this effect that the South African government, after the political transformation of 1994, introduced a White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (eThekweni municipality 2007). Four Strategic Plan Programmes have been identified to address the above-mentioned challenges. These Programmes are expected to interact with and feed into each other to offer maximum benefit to SME's in the eThekweni region. The four identified Programmes are;

- (a) Conducive Business Environment Programme
- (b) Business Opportunities Programme
- (c) Capacity Building Programme
- (d) Networking and Linkage Formation Programme.

These broader strategies are also being implemented within the INK URP/ABM in KwaMashu so as to improve the capacity of KwaMashu SME's to generate income and wealth, and to ensure that systems are in place to retain those incomes. The core initiatives in KwaMashu are summarized in the table 14 below.

**Table 14: Currently Running Initiatives in KwaMashu**

| <b>INK Job Shop</b>   | <b>Economic Sector Development Programme</b>  | <b>Small Enterprises Development Agency (SEDA) Satellite Office</b>                             |
|---|---|---|
| Job and job seeker databases, skills development to increase employability, job office                | Sector specific projects to grow sectors deemed as strategic growth sectors in the municipality | Assistance for writing business plans and tender applications, business registration assistance |
| <b>Business Skills Support Programme</b>  | <b>Business Support Unit</b>  | <b>Job Creation Facilitation Programme</b>  |
| Development of existing businesses. Current initiative is the foundation of a INK chamber of business | eThekwini unit that supports development growth from informal trainings to incubator status     | General economic workshops to ensure understanding of basic business background                 |

Source: DPLG (2007)

The main objective of the above strategies is to reduce poverty and unemployment and to enable KwaMashu to achieve economic growth. The strategies acknowledge that micro, small and medium-sized enterprises (SME's) are the engine of the South African economy, and have potential to spur KwaMashu's economic growth. They are an essential source of jobs, create an entrepreneurial spirit and innovation in KwaMashu and Durban. The strategies are thus crucial for fostering competitiveness and employment (eThekwini municipality 2007). The eThekwini SME Strategy clearly expresses the Municipality's commitment to the advancement of the SME sector and the achievement of the nation's objectives in the region (eThekwini municipality 2007). The current initiatives cater for all types of SME's within KwaMashu and the broader Durban. SME's are not a homogenous group, they are heterogeneous, having various capacities and facing different challenges (Nadvi 1999).

### **7.2.1 A Typology of SME'S in KwaMashu and Durban**

An enterprise is any entity engaged in an economic activity, irrespective of its legal form (European Union EU 2005). This includes in particular self employed people and family business engaged in craft and or other activities and partnerships or associations engaged in economic activity. The category of micro, small and medium-sized enterprises (SME's) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro,

and/or an annual balance sheet total not exceeding 43 million euro (EU 2005). Within the category of SME's small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro. Micro enterprises on the other hand are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro (EU 2005). The eThekwini municipality defines an SME as an enterprise, which is owner operated and functions with the primary focus of providing a livelihood for the owner and the immediate employees (eThekwini municipality 2007). The criteria for SME's in eThekwini is not clear cut like the EU criteria since it has monetary thresholds. The eThekwini and KwaMashu typology is summarised in the table 15 below.

**Table 15: SME Typology EThekwini municipality**

| <b>Type</b>       | <b>Employees</b>                                       | <b>Asset Value</b>                                 | <b>Characteristics</b>   |
|-------------------|--|--|--|
| Micro enterprises | Often owner run and do not have more than 5 employees. | Minimal  | Generally lack business formality<br>Generally lack premises<br>Are operated / owned by "survivalists" – services and products are of a basic nature.<br>Often do not operate bank accounts.                                   |
| Very Small        | Often owner run with up to 20 employees.               | Moderate to high – depending on stock levels.      | Operate on a "quasi-formal" market.<br>Have premises and basic infrastructure.<br>Meets basic legal compliance.<br>Will have bank accounts.  |
| Small             | Often owner run with up to 50 employees.               | High – due to stock levels and accumulated assets. | More established, with a traceable trading history.<br>Meets legal compliance.<br>Has succession planning mechanisms.<br>Will have bank accounts established and due to positive trading history, will have access to finance. |

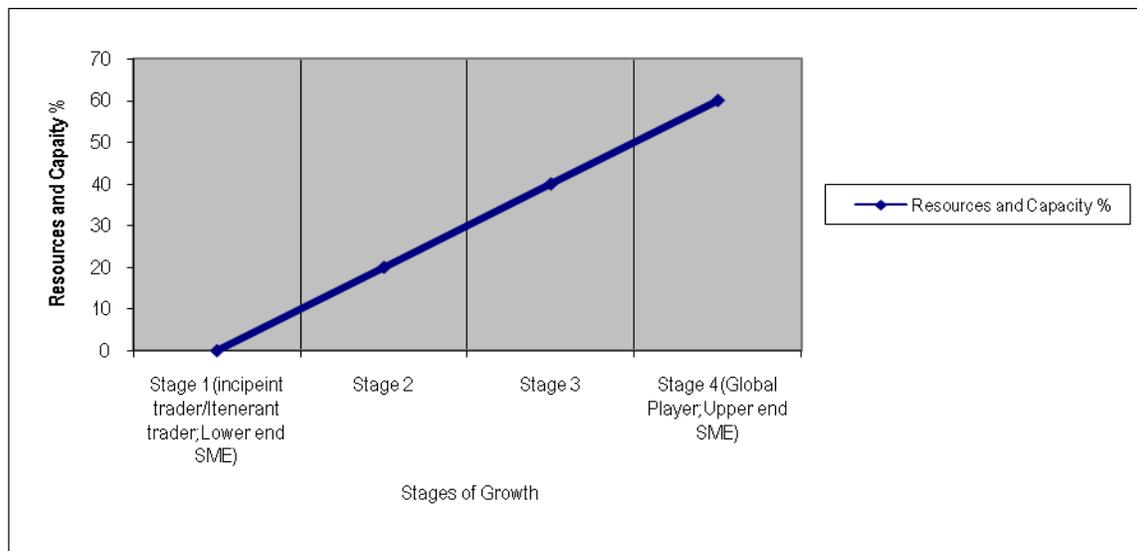
Source: eThekwini municipality 2007

An SMME distinguishes itself from 'Big business' as it typically has a smaller turnover, marginal asset value, smaller number of employees, simpler organizational structures and generally lower barriers to entry, less onerous legal obligations and regulative compliance issues (eThekweni municipality 2007). SME's in KwaMashu are involved in various activities which include; community, social & personal services; finance and business services; transport, storage, communications, catering, accommodation, wholesale trade, commercial agents and allied services; retail and motor trade and repair, agriculture, construction and other trades.

### 7.2.2 Evolution of SME'S

From the primary data and secondary collected, the research confirmed that SME's are heterogeneous and they evolve over time when other factors are held constant (Nadvi 1999). SME's also be classified according to their stages of growth where they range from being incipient to mature entrepreneurs (see graph below).

**Figure 17: Evolution of SME's**



Source Authors Construct

According to this classification entrepreneurs progress from stage one and can grow to stage two, stage three and four. An entrepreneur depending on resources and capacity can start up at any stage. From stage one to stage four; an entrepreneur can grow its capacity and resources in terms

of output, market share, skills, revenue, organization, knowledge and thereby, strengthening the value chain linkages. SME's in stage one and two are described as the lower end SMES or incipient SME's who are normally itinerant and informal traders. These SME's normally trade in goods such as, fruit and vegetables and other products which are of low value. SME's in stage 3 and four are described as mature or upper end SME's who normally trade in high value products. As the SME's move from stage 1 to stage 4 they become much more than survivalist enterprises but growth enterprises which can even become established business wherein they will no longer be classified as SME's. From the graph it does not mean however that every SME begins at stage one, it shows the levels of SME's which are present in KwaMashu. The SME's can move backward and forward from one stage to the next.

### 7.2.3 Challenges facing SME's

Even though the SME's are in different stages of growth they face the research found out that SME's face almost similar challenges listed below;

- **Lack of Skills:** The survey results reveal that entrepreneurs tend to lack technical skills and managerial expertise with 48% stating that they are in need of skills development. Failure of SME's is largely due to the inappropriate skill set of the individuals running or owning the enterprise given the fact that only 8% of the entrepreneurs at KMTC register growth. Other studies also found out that the current school (and in some instances university/technikon) curricula are not geared to develop individuals that would be able to operating in the business environment (eThekweni municipality 2007; Department of local government and Business Trust 2007).
- **Access to Finance:** Studies by the Department of Local government reveal that the constraint cited most frequently by local INK business owners, both formal and informal, is access to capital (DPLG 2007). This study found out that entrepreneurs cannot access credit since they lack collateral in the form of title deeds.

- **Access to Markets:** The survey revealed that most SME's have a tendency of doing do not have access to outside markets with 70% of the SME's at KMTC trading locally. Studies by the (eThekwini municipality 2007) also confirm that SMES fail to reach a sizable market base. Furthermore the study also revealed that entrepreneurs almost trade similar type of business activities. This results in market saturation and low profit return for such businesses. This is mainly because they lack the capacity to innovative which is as a result of lack of skills (eThekwini municipality 2007).
  
- **Lack of Infrastructure and inadequate business premises:** Studies by the (eThekwini municipality 2007) reveal that SME'S at times trade in the open due to lack of shelter. At KMTC some even resort to the use of illegal containers. Furthermore the survey results that existing informal trading spaces at KMTC lack key amenities like storage, electricity, water, and refrigeration. This impedes growth of entrepreneurs from stage one to four.
  
- **Education Levels:** Studies show that even though business centers are available where SME's can access information with can help them with business related matters, lower education levels of entrepreneurs constitutes a noticeable constraint. Research on South African small business and in INK show that there is a correlation between the level of education and the size of an enterprise. The level of education tends to increase with the size of the business enterprise (eThekwini 2007).

The above challenges are peculiar to all SMES however some are more acute for some SME's. For example, research findings by the eThekwini municipality, DPLG found out that as SMEs grow from stage one to stage four they have better access to markets, better skills, better education levels and higher income. Thus problems vary with SME's with those at the lower end having low market share, low skills and education level and low income. SME's at the lower end particular face the challenge of having inadequate shelter and inadequate infrastructure needed for an en enterprise to function. To this end the anchor project for the redevelopment of the KMTC center is a means of trying to solve this problem.

### 7.3 KWAMASHU TOWN CENTER (KMTC) REDEVELOPMENT

This section describes the current development trends at KMTC. KwaMashu town center is the main economic hub and node in KwaMashu together with Inanda and Ntuzuma. Redeveloping of the center is to upgrade infrastructure so as to open up the large tracts of undeveloped land in the town center for SME (eThekweni Municipality 2007). After the upgrade business will be able to lease or buy property at the center which was impossible before the project. The KMTC redevelopment is described in the table 16 below. From the table the KMTC redevelopment is two pronged with physical infrastructure projects and business development and support projects.

**Table 16: KMTC Redevelopment**

| <b>Project Description</b>  | <b>Status</b>  | <b>Value</b> |
|---|--|--------------|
| KwaMashu town centre: Physical infrastructure projects, business development and support projects, safety and security programmes (including the building of a new police station), all designed to establish the town centre as a major economic hub for the area. | In progress(physical infrastructure largely completed) | R 76 m       |

Source Department of Local Government (2007)

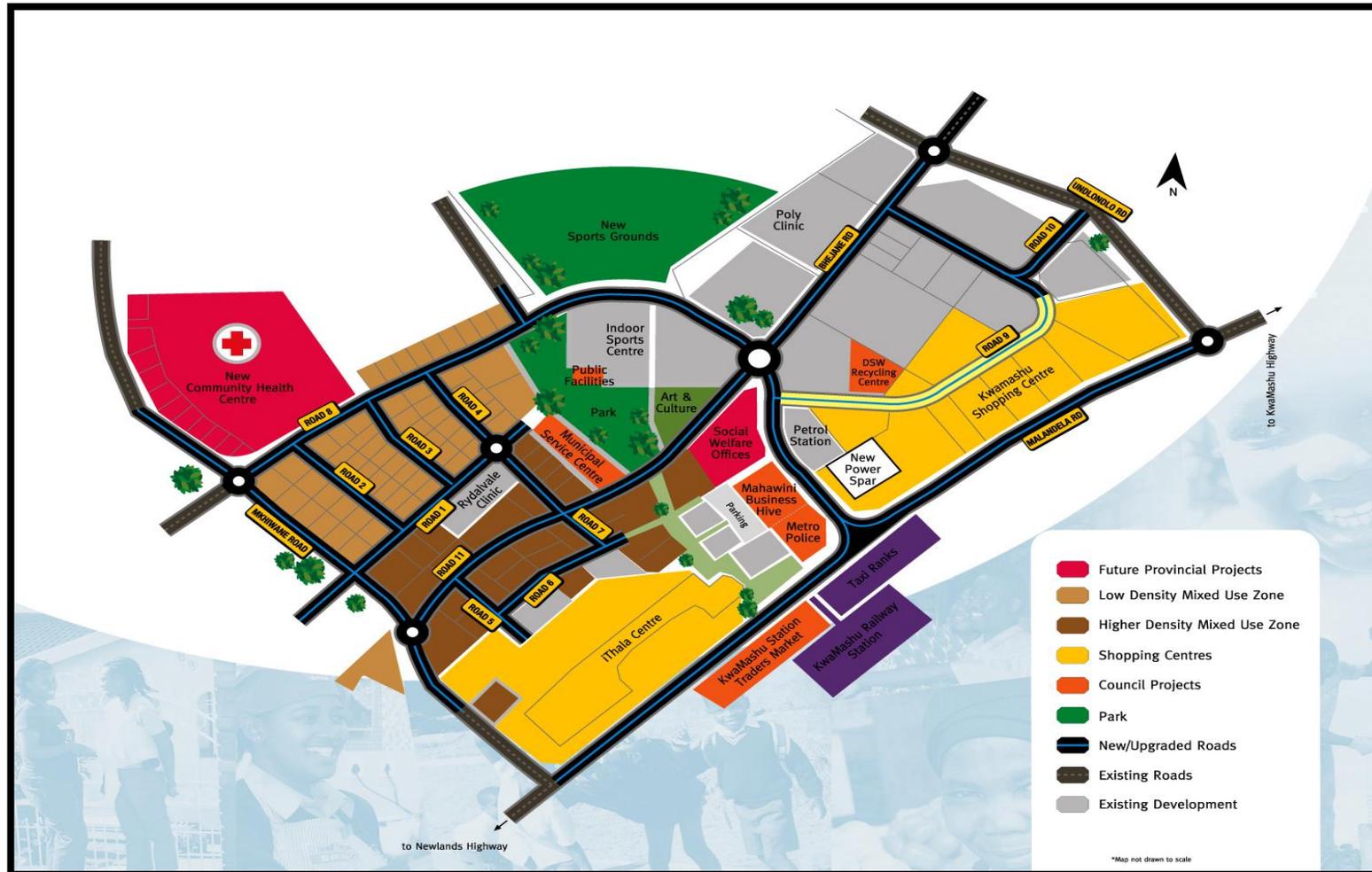
It has been observed that for business to function normally there needs to be certain hard infrastructure in place (Meyer –Stamer 2006). This infrastructure attracts investors to a place. With the KMTC redevelopment the infrastructure upgrade for the center is to provide a suitable platform for private sector investment and development-providing bulk services (water, electricity, roads and land being capable of being sold in freehold (eThekweni municipality). The purpose of this upgrade is to “..... to create an environment for local business to grow, and the local community to prosper.” (Councillor Majola cited by eThekweni Municipality 2008 pg7). Thus the purpose is to create an enabling environment for enterprise to operate. To this end there has been developed a new town center which has experienced high activity in retail activity where income is spent and retained in KwaMashu. For instance the new Spar at has surpassed its breakeven turnover; it currently doubles its breakeven on a monthly basis (DPLG and Business Trust 2007). An aerial photo showing KwaMashu Town Center and a layout for the centre is shown below.

**Figure 18: Aerial Photograph KwaMashu Town Center**



Source: eThekweni Municipality 2008

**Figure 19: Layout, KwaMashu Town Center**



Source: eThekweni Municipality 2008

From the aerial photograph and the layout of KwaMashu it shows the new developments which are the new town center and a new police station. The aerial photograph shows the Mahawini business hive which from observation it is revealed that it is an obsolete center which is need of an upgrade. The hive is poorly located, the infrastructure is rundown and it has become an unsafe area. From the interviews with the traders at the traders market, it was established that there is need for an upgrade of the trading stalls since storage is a serious problem at the traders market.

Thus at times goods deteriorate due to lack of storage at KMTC. Moreover the shelter provided does not protect the traders adequately from weather elements. It is because of the above reasons that there are plans to redevelop Mahawini business hive and the traders market so that they become conducive for SME growth. What remains to be determined is how speedy these proposed developments are to be implemented since it was revealed that they have been in the pipeline for over 5 years. According to Project manager of KMTC the new Mahawini business center and the Traders Market on completion will be state of the art developments (See diagrams below pg 136;137).

From the diagrams below showing the proposed Mahawini center which is a lead project to enhance the income of entrepreneurs through rebuilding the center and offering business support at the hive. The objective of the proposed center will be to stimulate and grow entrepreneurs in KwaMashu from stage one to stage four of growth. Upon completion it will indeed be a state of the art given its architectural design with two floors, ample parking and aesthetically pleasing. On the ground floor; it will be an area where SME shops will be located where they have adequate services (water, electricity, sanitation, storage and easy access). On the first floor there will be a local business support center which will implement an entrepreneurship training program. The main aim of a business support centre is to offer services which would include amongst other things mentoring business, creating a platform which nature's innovation, creating a database necessary for business linkage; linking business with external market, providing them with information which is crucial for running an enterprise. Furthermore on the first floor will act as a service center where various services such as logistical support will be provided. From the diagrams depicting the existing and proposed traders stall it is clear that the new stall will provide adequate shelter, storage and services which is currently lacking as established by the research (figure 21 and 22).

**Figure 20: Aerial view of Proposed Mahawini Business Hive**



Source: eThekweni Municipality 2007

**Figure 21: Existing Traders Stall**



Source: eThekweni Municipality 2007

**Figure 22: Proposed Traders Stall**



**Specifications:**

- Trading Pods (6m<sup>2</sup>)
- R 130 / month / Trader
- 4X Sharing Water
- Electricity x 2 sharing
- Storage x 2 sharing
- Roof x 8 sharing

## 7.4 SUMMARY OF CHAPTER

The INK URP/ABM program was established as a means of turning the tide against poverty in KwaMashu. The INK ABM has four impact areas of which the infrastructure and income enhancement impact have a large impact on the operation business at KMTTC. The anchor project of the INK ABM is the KMTTC redevelopment which focuses both on infrastructure provision and SME support so that SMES are able to grow. It has been observed that SME's have the potential of growing the economy of KwaMashu, thus there has been a deliberate effort to support the SME's out of the realization of the impact they have had in other places in reducing poverty. SME's in KwaMashu can be classified according to the stages of growth where they evolve from lower end SME's with meagre resources and capacity to upper SME's where they have better resources and capacity. Nevertheless this has been hampered by the slow implementation of the anchor project (The KMTTC redevelopment) both in terms of SME support and infrastructure upgrade. As a result they face challenges to growth.

# **CHAPTER 8: THE IMPACT OF LED STRATEGIES, ON POVERTY IN, KWAMASHU**

## **8.0 INTRODUCTION**

This chapter examines the impact of LED strategies on poverty alleviation in KwaMashu. The impact assessment is based on the following parameters: income, business environment, access to markets, infrastructure provision, asset indicators, level of skills and education. The situation before the implementation of LED strategies (baseline information) is compared to the situation after implementation of LED strategies in KwaMashu. From this comparison it is determined whether LED has had a marginal or major impact on poverty in KwaMashu.

## **8.1 LED'S IMPACT ON POVERTY AND INEQUALITY**

From the survey results it was revealed that there is a high incidence of poverty given the fact that for 65% of the households, poverty is part of their existence. This ratio is in tandem with the national statistics which state that incidence of poverty in KwaMashu is above 55 % ( DPLG and Business Trust 2007). In comparison in 2001 the incidence of poverty in KwaMashu and INK was at 72.5% thus as of 2008 there was a marginal decrease of 7% of poverty to 65%. This decrease can be attributable to the LED strategies and other poverty alleviation programs in KwaMashu.

From the survey, poverty in KwaMashu can be described as deprivation, where lack of material possessions, lack resources such as income are used as indicators of poverty (see section 2.3). Amongst the common items that residents lack is food (58%), adequate shelter (40%) and money (60%) which denies most of them access to health, education and ability to pay for services. Thus they are unable to live the life they desire. These percentages further confirm the high incidence of poverty in KwaMashu which is mainly blamed on apartheid by more than 70% of the households interviewed.

Under apartheid, people (particularly blacks) were denied opportunities, and access to basic human needs such as health and better education (Godehart 2006). After 'independence' the people in KwaMashu expected better opportunities and access to basic needs which they expected to alleviate poverty. Even though there was a change in government and municipal policy to alleviate poverty in KwaMashu, 68% of the respondents point out that their levels of poverty have not changed significantly for the better even after the introduction of the INK ABM program. This has led to discontent amongst the residents towards the current democratic government which is not doing enough to reduce poverty. Moreover from the research survey, KwaMashu residents still await the INK ABM, Municipality and the government to deliver on the promise to alleviate poverty. Such a situation strongly suggests to the dependency syndrome which exists in KwaMashu, and the fact that LED is not achieving its intended goal of, alleviating poverty in the area.

Analysis of survey results reveal that that even though apartheid is over it exists in a subtle way as economic apartheid wherein the poor residents find it hard to tap into Durban's and South Africa's growing economy. This further points out, the inequality which exists in KwaMashu and South Africa as a whole especially the striking difference between SME's in stage one and four. SME's in stage four (8% of the respondents) are mature SME's endowed with resources, with good networks which afford them the ability to get high value contracts. In contrast are the SMEs in stage one (over 50% of respondents) which are incipient, survivalist, with poor networks, low skills and education levels thus this web of factors trap them in poverty. The construction sector is a case in point where inequalities are evident where SME's in stage one have insufficient skills which forces them to act as subcontractors within the construction value chain, thereby reducing their revenue potential and profit margin (DPLG and Business Trust 2007). These inequalities persist even though there are procurement policies within the eThekweni municipality and national government which favour awarding contracts to the previously disadvantaged or black owned business. Inequality needs to be addressed first, since it has been observed worldwide as a key driver towards successful poverty alleviation (World Bank 2006).

Inequality still persists even with the adoption of macroeconomic policies which have huge dividends for the macro economy yet the same policies are not necessarily good for the eradication of poverty especially in local communities such as KwaMashu (Meyer Stamer 2003). It emerges

from the interviews that 72% of the residents acknowledged that South Africa is an 'economic powerhouse' yet they wonder why it does not filter to them suggesting that Myrdal's and Hirschman trickle down effects discussed in table 5 do not work. South Africa's policy intimates that LED will grow the economy and benefits will be felt at the grassroots, thus LED is actively pursued, based on that assumption (eThekweni Municipality 2006). However the survey reveals that there have been differential outcomes where only 8% of the SME's interviewed have managed to leverage themselves and benefit from the INK ABM Program. The 8% consist of SME's in stage four whilst the rest are still struggling to reap out benefits or step their foot on the ladder of the INK ABM. This suggests that LED in KwaMashu is not achieving its intended objective of alleviating poverty since the incipient SME's are hardly benefiting from the INK ABM program. Thus they are stuck at the bottom of the development ladder.

LED is a key driver for economic growth and is mandatory for all municipalities in South Africa. Since LED is mandatory even though some argue that, it has a tone of being top down. This however does not suggest that the poor are not consulted, indeed in the drafting of the KwaMashu town center redevelopment plan; the residents were consulted in (Interview Project Manager INK ABM). However there is also discontent by the SME's where 21% state that indeed they are consulted by the INK ABM yet they are yet to see the fruits of the consultations. The question to be asked is how genuine and effective is the consultation? What is striking from the survey is that there are indeed numerous and high quality reports and designs. Such reports and designs are based on these consultations with well thought out LED strategies which are groundbreaking as evidenced by the huge amount of consultants reports such as(DPLG, monthly municipal reports and municipal minutes) INK ABM office has. Yet it does not match with what is on the ground. Thus there is a disjuncture which may stem from the fact that LED is mandatory thus municipalities and INK ABM in KwaMashu has to be seen to be doing something with regards to LED which is argued by the national government as panacea to poverty alleviation. This disjuncture thus impacts negatively on the way LED strategies impact on poverty alleviation since it will not be targeted at poverty alleviation but merely to carry out mandatory LED obligations.

## **8.2 LED'S IMPACT ON THE BUSINESS ENVIRONMENT.**

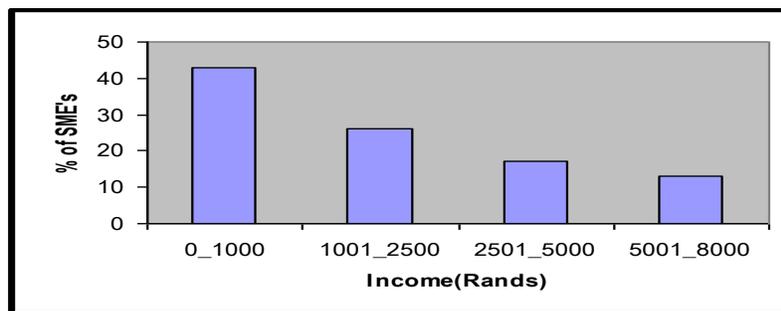
This section examines the business environment which is assessed by determining the level of trust amongst entrepreneurs. Trust is key for any venture and for forming entrepreneurial and industrial clusters which are essential vehicles for poverty alleviation (Nadvi 1999). From the survey findings it was revealed that 86% of the SME's argue that the business environment they operate in is friendly. Thus there should be high level of trust amongst entrepreneurs. One therefore wonders why the SME's do not see it as a potential to grow their enterprises by organizing themselves into a business cluster wherein there is collective action that would bring about economies of scale (Onus and Malecki 1999 cited by Nadvi 1999). The economies of scale may help them in getting tenders since it has been observed that tenders are normally biased against small SME's (eThekweni Municipality 2007). By pooling resources the cluster of SME's or merged SMES can tap into big projects. Analysis of SME's in KwaMashu reveals that there is no clustering amongst them. Pooling up resources is also a means by which the SME's can move up the value chain where they are able to participate in the global market (Meyer Stamer 2003). Moreover it would assist the SME's to progress from stage one to Stage four. Furthermore if the cluster is well organized with the amount of social capital that exists in the form of trust, they may even progress from Mark 1 to Mark 5 (see section 2.2.2) (Asheim 1997). Such progress is likely to have greater impact on poverty alleviation.

## **8.3 LED'S IMPACT ON INCOME**

The question on income sought to find out on whether the income situation of the SME's and households has improved since the inception of the INK ABM Program. The parameters used to asses this impact were income (for households) and its impact on profit, revenue and output of SME's in KwaMashu. The amount of income the SME's earn per month is summarised in figure 23 below. The majority of SME's (43%) earn between R0-1000 which is equal to or below the South African poverty line of R 1000 per month per household (Woolard 2002). This further suggests a high incidence of poverty. The low level of income also has a multiplier effect given that there will be less income left for the household. Thus the well being of the households is compromised.

Even though income is not a complete measure of poverty it has impacts on enhancing human capabilities and choices. Having low income will mean the owners of SME's will find it difficult to afford decent health care, education and living the life they desire. Thus they are trapped in a poverty web which reinforces itself. The 43% SME's earning R 1000 are the ones at the lower end of the scale, the incipient and survivalist businesses with little or no skills. Their income virtually stays the same or eroded given the rise in inflation which is hovering around 7%. Thus their situation is even getting worse of compared to 2004 where inflation was 3% (SA Statistics 2007).

**Figure 23: Income levels per month of SME's at KMTC**



Source: Authors Construct

The survey revealed that high incomes in SME's are associated with better skills. For example cell phone repairs and internet cafés which constitute part of the 8 % of the mature SME's with incomes between R5001 to 8000 a month as discussed in case study 1 below.

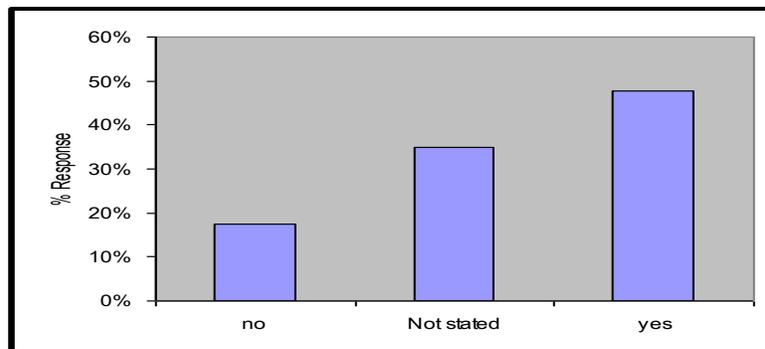
**Case Study 1: Bheki Construction Company**

Bheki Construction Company was formed in 2003 by the owner who was interviewed at the Durban SME of 2007. The company has benefited from the INK ABM through a subsidy to display at the Durban SME Fair. Moreover the firm is in the database created by the INK ABM which assists in marketing the firm. Mr Bheki holds a Bsc in Property Development. He has managed to come up with a new set of brick pavers designed as railway sleepers. This unique innovative design has made the construction firm to carve out a *niche* market where these pavers have been sold in INK, Durban, South Africa and even exported to Malaysia where he earns foreign currency. Through the unique innovative design Mr. Bheki has developed a competitive advantage since he sells his product at a higher price given it is a unique design. Through attending fairs such as that of SME's Mr Bheki has managed to develop business linkages and acquired more clients. It is because of the knowledge which the owner acquired that he has managed to come up with his unique design. The owner plans to set up shop in Johannesburg given that his enterprise is thriving.

It is clear that high skills and education levels enable SME's to explore global markets where they earn higher incomes. Better education and skills also enables entrepreneurs to enhance their competitiveness. This suggests that if SME's are to escape poverty they have to enhance their capabilities in the form of being equipped with skills which enable them to tap in *niche* markets and value add their products. The research establishes that for most SME's in KwaMashu low income is also a combination of other factors such as lack of access to credit to grow business, saturation of markets, for example there is a strong presence of vegetable traders at the KMTC. The low income may also be as result of poor location of the business and lack of assistance from the INK ABM.

The level of income impacts on indicators such as revenue, output and profit. This further reinforces the idea that enhancing incomes of people is a basic starting point for poverty alleviation which would open up other possibilities (World Bank 2000). Even though LED is taking place in KwaMashu entrepreneurs argue that it has not changed their poverty situation with regards to levels of income as shown in figure 24 below.

**Figure 24: Perceptions of Income growth since Start-up of SME's**

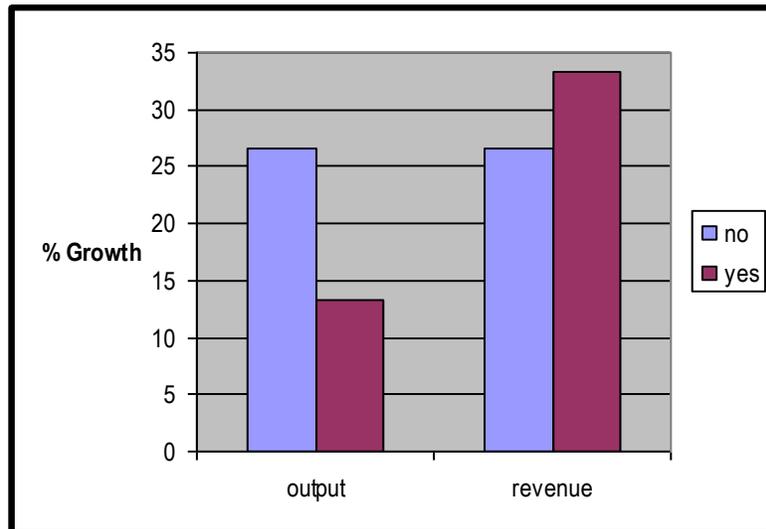


Source: Authors Construct

The question on income was a sensitive question given the fact that 35% of the respondents were not comfortable to disclose such information. It also points out to the fact that their incomes have neither grown since start-up nor since the INK ABM came into operation. 17% of the entrepreneurs argue that their income has not risen whilst 48% argue that their incomes have grown. However there is some consensus amongst the entrepreneurs' that the rise is quite marginal and is not "real"

since they were raising their prices in response to inflation. Thus their situation has not really changed in real terms. However the change in output gives a clearer picture of the situation as shown in figure 25 below.

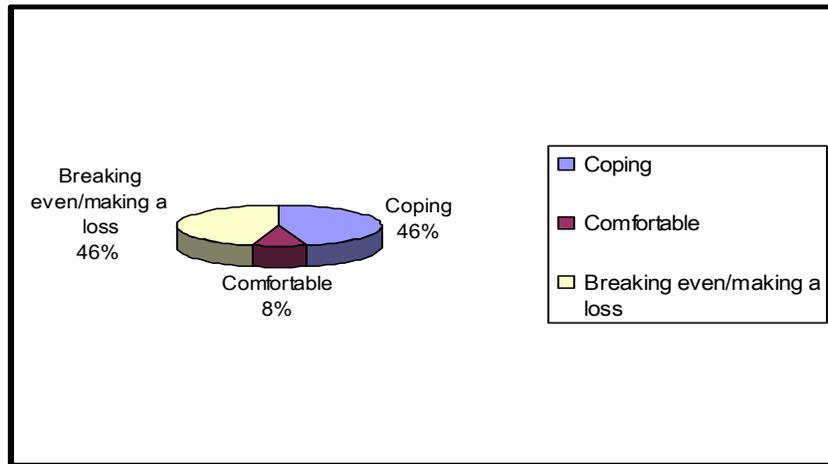
**Figure 25: Perceptions of Revenue and Output growth since Start-up of SME's**



Source: Authors Construct

Thirteen percent of the SME's have not registered output growth since start-up. Of those who have registered output growth, the answer lies in them partly taking advantage of the INK ABM program and them being in the upper segment of SME's. 26% of the entrepreneurs argue that revenue has not grown since start-up, thus, one wonders why they still remain an entrepreneur given that business output is not increasing or virtually stagnant. The answer partially lies in the fact that 40% of the entrepreneurs are in business not because they want to, but because it is the only option, it's a survival strategy. Moreover they do not have sufficient resources and the psychological makeup to be successful entrepreneurs. This partly explains why most of them are barely coping and merely surviving since they do not have the motivation to benefit from programs such as INK ABM. The above trait exhibited by the entrepreneurs at KwaMashu Town center traps them in poverty since they will not be interested in growth but focus on day to day survival. The graph below shows the state of SME's at KMTC whether they are surviving coping or comfortable.

**Figure 26: State of SME's at KMTC**



Source: Author's Construct

Non profit making SME's constitute 46% and their enterprise are barely surviving. They do not have their hands yet on the development ladder. This shows that the enterprises are not growing in terms of income: they remain trapped in poverty meaning in spite of the INK ABM program which has been in place, their situations have not changed. Another 46% of the entrepreneurs are coping meaning they drift between making a profit, breaking even and making a loss. At one point they have their hand on the first steps of the development ladder and at times loose grip of the development ladder. Both groups of SME's who are coping and not making profit belong to the lower segment of entrepreneurial growth. They have remained trapped in their situation for five years or more since the inception of the INK ABM or before.

The age of the business gives testimony to the long duration of poverty which these SME's find themselves in, with some having been in business for more than 10 years as shown in the table below.

**Table 17: Age of Business of SME's**

| Age of Business by category | % of SME's    |
|-----------------------------|---------------|
| 1-5 years                   | 21.74         |
| 5-10 years                  | 56.52         |
| 10-20 years                 | 8.70          |
| 20-30 years                 | 8.70          |
| 30years +                   | 4.35          |
| <b>Grand Total</b>          | <b>100.00</b> |

Source: Authors Construct

Fifty six percent of the businesses are 5-10 years old and have not seen a significant change in income or output growth even with the introduction of the INK ABM. Indeed only 8 % of the SME's are in a comfortable position wherein they are in a position to reinvest profits. These SME's are in stage 3 and 4 of entrepreneurial growth, or the upper segment of SME's ladder. The comfortable SME's normally have a certain skill where they create a *niche* for themselves and have the opportunity to value add their products. These are the SME's who have managed to leverage their business with initiatives such as linking themselves with the INK ABM where through networking they have been able to obtain some contracts. Moreover there is some level of networking, bridging and networking by the SME's amongst themselves, with the INK ABM and other LED stakeholders.

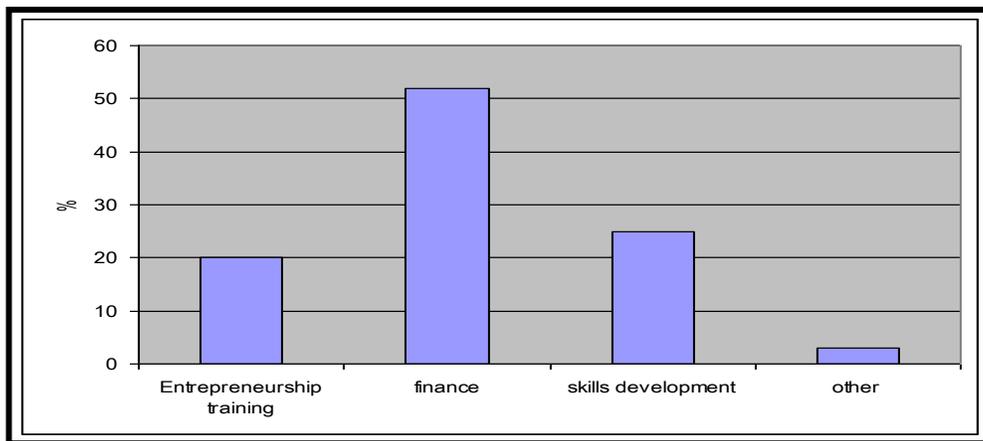
Furthermore the upper segment of SME's exhibit some form of innovation and motivation which has enabled them to escape the poverty traps. The poor state of affairs of the lower segment SME's also suggests that there is poor targeting of LED programs, especially the "poorest of the poor" by the INK ABM and other stakeholders involved in LED in KwaMashu. This further suggest that the poorest of the poor are unlikely to benefit from the INK ABM since they lack the assets and resources to leverage and therefore they are unable to grow. This reinforces the fact that LED programs have differential outcomes. SME's which are mature are able to position themselves to take advantage of LED programs.

If programs are not specifically targeted at the poor, the lower segment of SME's they are unlikely to benefit and therefore likely to remain trapped in poverty. It is therefore clear that only SME's with some endowments will continue to benefit from LED initiatives such as the INK ABM. Moreover it is not necessarily the aim of lower segment SME's to grow but survive or get employment with 40% saying that they would be rather employed in a high paying job. The paradox in such a scenario is that these entrepreneurs do not have the necessary human capital in terms of skills and education to manage their financial resources.

## 8.4 LED'S IMPACT ON SKILLS, TRAINING AND FINANCE

This section assesses what impact the INK ABM has had on the levels of skills development, training and finance in KwaMashu. A survey on eThekweni indicated that 88% of sampled informal economy entrepreneurs had not received assistance in terms of skills development, training and finance in Inanda Ntuzuma and KwaMashu (DPLG and Business Trust 2007). Furthermore this survey revealed that entrepreneurs in KwaMashu need assistance in the form of entrepreneurship training, skills development and finance as illustrated in the graph below.

**Figure 27: Forms of Assistance Required**



Source: Authors Construct

Fifty two percent require assistance in terms of finance, 20% in entrepreneurship training, 25% in skills development and the remaining 3 % other forms of assistance. From these views it appears that the LED strategies have had marginal impact in providing assistance in terms of skills development, training and finance. Studies in INK reveal that the most critical business skill gaps are: business plan writing; inventory management; financial management, pricing and advertising (eThekweni municipality 2007). Thus there is a great need for the SME's to engage in training and equip them with skills to run viable business enterprises. This parallels Schumpeter's entrepreneurial skills where equipping small business with these skills will promote invention, innovation and diffusion of ideas which will assist small enterprises to grow. This growth would be in terms of income, market share and assets since it has impacts on poverty (See case study 2 below).

### **Case Study 2: Pezulu Arts and Craft**

Pezulu arts and crafts make handmade bead work from a stall at KwaMashu town Center. The owner has neither formal education nor formal training. He relies on his natural talent in making the beadwork. Like other SME's in his business, he argues that he cannot find a market for his products and is therefore forced to rely on middlemen who buy his produce at a low price and later sell them overseas at lucrative prices. Thus there is information asymmetry as the producers do not know the final price of their goods. The business is surviving as the owner argues that he barely earns R2, 500 a month which is inadequate to support his family of four. Thus per year the enterprise earns less than R 19,200 which is below the national annual poverty line. In order to avoid exploitation by middlemen arts and craft producers such as Pezulu need to gain knowledge about the market where they can get lucrative prices. Furthermore the fact that the enterprise has not benefited from the INK ABM partly explains why the enterprise is still at the incipient stage.

Source: Authors Construct

The lesson learnt from the above case is that lack of education is an impediment to the growth of SME's. The owner of Pezulu Arts and craft is unable to expand his market or carve out a niche market in contrast with case study one (section 8.3) where the owner has managed to expand the business due to better skills. Thus it is necessary to enhance SME's skills level for them to be able to earn a higher income. Moreover through the training of owners of SME's they create networks, and organize themselves in clusters which are likely to lead to economies of scale. Being equipped with skills through fostering the culture of innovation is crucial in breaking the dependency syndrome which currently persists which partly explains the low level of development and high levels of poverty amongst the SME's. Half of the entrepreneurs interviewed were interested in waiting for the INK ABM instead of leveraging themselves towards the INK ABM.

From the survey 50% SME's' require assistance, in the form of finance which creates a paradox. If given the finance would the entrepreneurs know how to manage it which raises the question of what should come first, finance or training? This may also explain why close to 46% of the businesses have not grown over past five years with little impact on poverty. It can therefore be argued that there is need for training and developing skills first before requesting for finance. The research findings establish that that SME's with specialized skills such as cell phone repairing earn significantly higher incomes, since they are able to create a niche market for themselves

where they are able to value add their products thereby fetching higher prices. Developing skills is also essential in breaking the current “copying and paste syndrome” where business operate almost in the same trade where of the entrepreneurs interviewed 30% sell food and vegetable items. Such a situation floods the market, reducing market share and ultimately income meaning one would remain poor.

From the above discussion it is clear that entrepreneurs lack basic human capabilities in the form of entrepreneurship training and skills which would enlarge the business choices enabling them to grow so that they would be in a position to escape the poverty traps they are in. Finance should only be provided once human capabilities have been enhanced. For the LED strategies to be sustainable and have impact, enhancing human capital which enlarges choices is essential. Moreover LED has to be conceptualized in a coherent and consistent manner for successful poverty alleviation (Meyer-Stammer 2003).

## **8.5 LED CONCEPTUALISATION AND ITS IMPACT ON IMPLEMENTATION**

This section, examines what the impact of divergent views on LED has on the implementation of LED as a poverty alleviation tool in KwaMashu. From the interviews different views of LED emerge, even though it is a statutory requirement in South Africa. Firstly Town and regional planners view LED as a means of enhancing the space economy of an area. Common terms which feature from this line of thought, are, developing corridors, nodes, economic hubs, infrastructure provision, and movement networks. From this perspective LED is concerned with designing and building infrastructure which is long-term. Thus through such approaches KwaMashu’s economy can be mainstreamed into that of Durban, and ultimately the global economy through anchor projects such as the KMTC and Bridge City projects.

From interviews with economists and personnel from the Business Support Unit and Sector Support within the municipality, LED is concerned with promoting business enterprises through business support activities. From this point of view LED is mainly concerned with enhancing the competitive advantage of enterprises and letting the market dictate is central. LED therefore acquires an economic growth focus wherein with economic growth it is assumed that there will be

trickle down effects that will alleviate poverty. One therefore wonders how different LED is from previous economic development strategies or is it just the same outworn presumption repackaged. Another question which can be asked is, is the LED pro-poor if it focuses on the competitive advantage rather than targeting the lower segment of the SME's.

From the above discussion one raises a question, how then do you merge the two different strands of LED, from a planning perspective which is long term and from a business perspective which is focused on profit in the immediate short term. What it means is that there has to be a compromise failure of which might impact on implementation adversely or it might lead to compartmentalized development which is not integrated or even confusion which is detrimental to progress.

It is also established from the interviews that the issue of poverty alleviation rarely features. However the issue of equity features prominently in the LED definition. This is encouraging since it has been observed that equity is a key driver of poverty alleviation (World Bank 2003). From the interviews equity can be achieved through rearranging the space economy and formulating policies targeted at the previously disadvantaged. However a question remains, how serious is the INK ABM in correcting inequality as it still persists given the wide difference in SME's in stage one and stage four (See section 7.2.1). The survey reveals that Implementation of LED strategies is not reaching the lower segment of the SME's. 88% of the entrepreneurs in Inanda, Ntuzuma and KwaMashu had not received any form of direct assistance from the INK ABM (DPLG 2007).

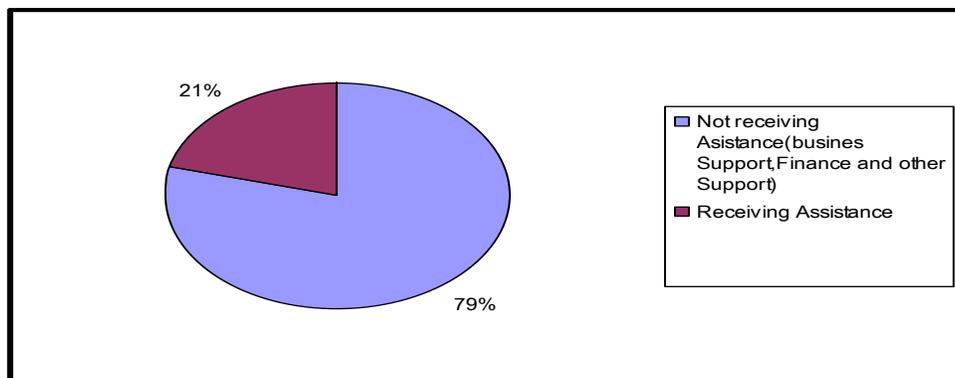
From the interviews with Sector Support Unit of the municipality LED is scarcely viewed as a poverty alleviation tool, instead it is described as a wealth creation tool. One therefore questions whether it is possible to create wealth without assets and resources? Only the SME's which are matured and endowed with recourses are able to create wealth and tap into the INK ABM whilst those at the lower end cannot since they are barely struggling to survive. With this line of thought LED strategies in INK are therefore mainly geared to SME's at an advanced stage of development. As such LED in KwaMashu is not specifically geared for the lower segment of SME's. Thus LED in KwaMashu is conceived as not achieving its objective of being pro-poor, since it finds it is not managing to reach the poor in a meaningful way.

LED is mandatory in South Africa, it concerns enhancing the space economy and the competitive advantage of an area which is expected to spur economic growth. Lastly it is a means of creating equity which is a key driver of poverty alleviation for a particular community. The question is how the different views of LED impacts on the implementation? The varying views impact adversely since efforts will not be done in an integrated manner. What the research establishes is that the different municipal departments concentrate on one aspect of LED meaning it becomes compartmentalized. Nevertheless there are encouraging signs in that the INK office was setup as a Local Economic Development Agency (LEDA) to coordinate and facilitate LED in KwaMashu. Through such a setup the INK ABM channels and harness support from various municipality departments, government departments and other stakeholders into KwaMashu so that LED strategies complement with each other. Such a scenario parallels Integrated LED planning in Hamburg Germany where the LEDA coordinates development efforts as discussed in section 3.6.3. The INK setup ideally would also ensure that LED is not compartmentalized (Interview INK Program Manager). The confusion with regards LED (Meyer-Stamer 2005) is not only peculiar to KwaMashu but South Africa as a whole and other parts of the world.

## 8.6 IS THE INK ABM REACHING OUT?

The question whether the INK ABM program is reaching out sought to establish if the INK ABM was reaching out the intended beneficiaries at KwaMashu Town Center (KMTC) in a meaningful way. The SME's and residents were asked if they felt the presence of the INK ABM in KwaMashu. The responses are summarised in the graph below.

**Figure 28: Level of Assistance from INK ABM to SME's**



Source: Authors Construct

Analysis of survey results reveal that 79% of the entrepreneurs do not get assistance from the INK ABM while 21% get assistance. The 79% who do not get assistance acknowledge the existence of the INK ABM program. Nevertheless they are waiting for the program to come to them instead of organizing themselves so that they can explore what the INK ABM has in store for them. This further reinforces the fact that there is a dependency syndrome amongst SME's which is a major impediment to development. Furthermore the fact that 79% do not get assistance strongly suggests that the INK ABM is not achieving its objective of reaching out to the poor. Moreover other studies in Inanda Ntuzuma and KwaMashu revealed that 88% of the informal economy had not received assistance from the INK ABM (DPLG and Business Trust 2007). Thus a question can be asked who the INK ABM is helping. Such a scenario also explains why there has been marginal impact with regards to addressing poverty suggesting that the INK ABM is not reaching out to the poor. Therefore if a pro-poor agenda is to be successful there is need for reconsideration in policy implementation.

Of the 21 % who get assistance it emerges that they are those SME's which are mature with more than two employees. This further reinforces the point that LED has, differential impacts, with the poorest of the poor failing to benefit from the INK ABM Program. Thus it can be argued that LED in KwaMashu is "not pro-poor" save for the waste collector's project at KMTC which is yet to kick start. Moreover, it has been observed elsewhere that selling waste marginally improves the well being of the poor thus one wonders why engage in such strategies (Nadvi 1999). Nevertheless it is encouraging to note that the INK ABM, in preparation of LED strategies consulted the owners of SME's at KMTC on what they need. However they argue that even though they were consulted they are yet to see the fruits from the consultative process (Interview Project manager KwaMashu Town Center). Thus suggesting slow progress in implementing LED, with the INK ABM having started in 2001 there is scant evidence to suggest progress and impact on poverty (ibid). The gap between consultation and implementation has led to discontent and mistrust between the entrepreneurs especially the lower segment and the INK ABM office. The entrepreneurs interviewed argue that there is no progress, yet they were consulted. Therefore one raise a question is LED being carried out only as a mandatory procedure? Thus implementing agencies such as INK ABM are forced to consult so that they are seen as doing something which leads to piling of consultant reports with groundbreaking strategies which are not implemented. This

suggests that LED programs such as the INK ABM are not based on addressing the needs of the people but on the need to carry out LED as mandatory process. This is not only peculiar to KwaMashu but other South African municipalities (Marais et al, 2002). This scenario of hiring consultants also points to the lack of capacity in implementation agencies in implementing LED. If LED agencies such as INK ABM had the capacity it will be evident in fewer consultants' reports which are also a means of saving scarce financial resources which can be channelled towards a pro-poor LED agenda.

## 8.7 LED'S IMPACTS ON MARKETS

This section examines how far the LED strategies have led to an increase in the market share of the SME's. Market share determines the level of income since a huge market especially a foreign market where foreign sales can be a major source of income. From the interviews information solicited was on whether the INK ABM has led to an expansion of markets, both local and export markets for the SME's. The figure below highlights the sphere of influence of markets for SME's at KMTC.

**Figure 29: Markets for SME's at KMTC**



Source:Authors Construct

The majority of SME's (80%) sell to an already saturated market in KwaMashu with only 20 % exporting their products to the broader eThekweni, national and global economy. Other studies reveal that there is the absence of a secure, permanent, high-traffic area to trade (Business Trust and DPLG 2007). Furthermore, existing informal trading spaces lack key amenities like storage, electricity, water, and refrigeration. As a result, small businesses, which currently tend to operate from the owners' homes, are not able to reach a sizable consumer base within INK. Moreover there is weak or no access to consumers and markets outside of INK (ibid).

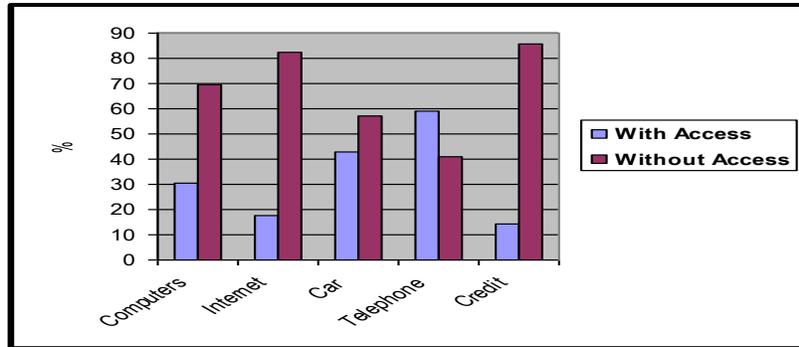
The 20 % which exports belong to the upper segment of SME's who have been aggressive in taking advantage of LED initiatives by the INK ABM such as the annual SME fair in KwaMashu and the eThekweni Municipality SME's Fair. Of the SME's based in KwaMashu interviewed randomly at the eThekweni SME Fair share a common thread of phenomenal growth in market share with 70% exploring global markets, particularly the ones in the tourism sector. Such fairs are also a form of linking, networking and bridging between the SME's and other players in the economy. Interestingly the entrepreneurs attending these fairs exhibit high signs of motivation and innovation which is crucial in breaking the dependency syndrome which currently permeates SME's at KMTTC. Moreover attending the fairs is a way of gaining useful information. For example entrepreneurs can get information on big corporates with SME's support programs. For example Engen refinery and SAPREF subsidises paying for stand to display at SME fairs. Attending the fairs is also an opportunity to meet new clients and it is also a platform to create a healthy relationship between SME's and LED implementation agencies such as the INK ABM office. By way of summarizing on the above discussion the issue of differential outcomes still persist with SMES in the upper segment being able to capture a large market. What is therefore needed is a pro-poor LED Agenda of targeting all segments of SME's with special focus on in the lower segment.

## **8.8 LED'S IMPACT ON ASSETS**

The question on assets indicators examines whether SMES have grown in terms of assets which are necessary for the growth of SME's. The level of assets of the SME's at the KMTTC is shown in the graph below (figure 30). SME's at KMTTC score low with regards to access to computers and the internet with 70% and 82 % without access respectively given the fact that they are useful for business. The SME's score low in access to credit with 85% arguing that they do not have access to credit since the banks view them as high risk due to lack of collateral. Indeed it has been observed that lack of access to credit has trapped poor people in poverty since they cannot offer valuable collateral (World Bank 2002). Nevertheless it is encouraging to note that one of the KMTTC's project goals is to establish a property market in KwaMashu which SME's can use as collateral to borrow money from the banks. However the challenge is how to create a property market for the lower segment of SME's rather than the upper segment. This suggests that

alternative strategies be identified to cater for various segments of the SME's including the lower segment.

**Figure 30: Level of Assets amongst SME's**



Source: Authors Construct

Owners of SME's interviewed at the Durban SME score high in terms of assets with 60% owning a computer and having access to the internet. However access to credit still remains an impediment since they also lack collateral in the form of property. Furthermore other studies have revealed that the constraint cited most frequently by local INK business owners, both formal and informal, is access to capital (DPLG and Business Trust 2007). The question therefore is how can LED agencies such as the INK ABM assist the smaller SME's come up with collateral so that the cycle of differential development is broken. The answer partly lies in collective pooling of resources which is discussed in the next chapter.

## 8.9 LED'S IMPACT ON INFRASTRUCTURE

The survey results show that LED strategies have impacted positively on the provision of basic infrastructure necessary for the operation of an enterprise. There has been progress in terms of providing infrastructure and services at KMTCC and KwaMashu as a whole. There has been massive investment in infrastructure and service upgrade (over R65 million invested) which ensures that the basic needs of the SME's and residents are met (eThekweni Municipality 2006). The infrastructure which has been upgraded at KMTCC include the following: a new taxi rank, a shopping center with parking and food court, street furniture, upgrade of Mandela road which passes through the center and a new police station. With such an improvement in the built

environment at KMTCC the center is now viewed as aesthetically pleasing (see figure 18). Moreover such development has led to a change in people's perceptions of KwaMashu as some have referred to it as the New Umhlanga Rocks <sup>7</sup>(Interview Project Manager KMTCC Redevelopment). The developments are also part of urban design and planning which is central in LED as discussed by Meyer Stamer in chapter two in the triangle of LED. The change in perceptions and improvement in infrastructure is also pivotal in attracting investments since most investors are interested in hard factors such infrastructure when they are considering an area for investment. For example Spar, major banks, national fast food chains, furniture and clothing retailers have been attracted to KMTCC. The improvement in infrastructure is across the board in KwaMashu which is evident in its infrastructure index of **55.5** meaning KwaMashu has medium developed infrastructure.

## **8.10 SUMMARY of CHAPTER**

The study reveals that a general level LED at has had a marginal impact on poverty alleviation in KwaMashu. However the study reveals that LED strategies have had a positive effect in improving the level of infrastructure in KwaMashu. This development has changed people's perceptions about KwaMashu and attracted investment into KwaMashu. Poverty indicators which have not changed significantly for the better are income, assets, human capabilities and market access. Furthermore what exacerbates the situation is the inability of entrepreneurs to access credit so that they can build their capacity. In terms of income, it is established that there has been little impact with most SME's struggling to keep their business running. However the upper end SME's have managed to take advantage of the INK ABM, thus their enterprises have managed to grow in terms of income, assets, markets, and output. The fact that only the upper end SME's have shown signs of growth show that LED policies have differential outcomes if they are not specifically targeted at all the segments of the poor. An interesting thread which the research identifies is that there is a direct correlation between level of skills and business size. The better the skills the higher the income, profit and market share of an enterprise. It was also established that INK AMB is not successfully reaching out to some of its intended beneficiaries, the poorest of the poor.

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<sup>7</sup> Umhlanga Rocks is a wealthy suburb North of Durban's CBD with a state of the art shopping mall (Gateway City). Thus when people refer to KwaMashu as the new Umhlanga Rocks they mean that they are now more like Umhlanga Rocks.

# **CHAPTER 9: SUMMARY OF RESULTS, RECOMMENDATIONS AND CONCLUSION**

## **9.0 INTRODUCTION**

The study sought to evaluate the impact of LED strategies employed by the INK ABM in reducing poverty in KwaMashu. This chapter gives a summary of how LED strategies in KwaMashu have impacted on poverty. Assessment is made in terms, of impact on poverty indicators which are; infrastructure and basic needs, human capabilities, income, assets and employment and whether LED in KwaMashu is pro-poor. It is on the basis of the impact that LED has had an impact on poverty alleviation that recommendations are made. The last section of the chapter makes a final conclusion for the whole study.

## **9.1 CHANGES IN INFRASTRUCTURE AND BASIC NEEDS**

The study revealed there has been major infrastructure upgrade in KwaMashu given the redevelopment of the KMTC with an investment of close to R120 million (DPLG 2007). A new police station has been constructed, roads refurbished and a property market has been established at KMTC. The investment has led to a major improvement in aesthetics at KMTC which has changed people's perception about KMTC and KwaMashu at large. The change of perception in viewing KwaMashu in a better light is crucial in attracting investors into the area. For example the new KMTC has attracted major investors such as Spar, major banks, national fast food chains, and furniture and clothing retailers to KMTC. Thus that LED has had a major impact in improvement of infrastructure in KwaMashu

Findings from the study also reveal that LED strategies have had a significant impact in improving household access to basic services (electricity, refuse removal and sanitation). A significant proportion of the households (above 70%) have access to basic services. Ninety percent of the households have access to refuse removal, 84 % have access to electricity and 86% have access to a flush toilet (DPLG and Business Trust 2007). Thus households are provided for with all

households having access of above 80% in terms of refuse removal, electricity and sanitation. Generally LED has a major impact in provision of basic needs in KwaMashu.

## **9.2 CHANGES IN ASSETS, INCOME AND EMPLOYMENT**

Income and assets and employment are key indicators of growth and poverty (World Bank 2000). In terms of assets the study establishes that entrepreneurs at KMTC score very low in possession and of assets. Over 70% of the entrepreneurs have no access to computers and the internet which are necessary for running an enterprise. Moreover over 80% of the entrepreneurs have no access to credit mainly because they lack collateral in the form of assets, mainly property. The SME's at the upper end who have managed to leverage themselves with the INK AMB have moderate assets with 60% having access to computers and the internet which is useful for running and enterprise. Nevertheless many of them explained that access to credit still remains a problem. As such the INK ABM has had a marginal impact in enhancing the assets of the lower end SME's.

The number of estimated jobs that have been created as a result of anchor LED projects in INK (KMTC redevelopment) are 409 permanent and 353 temporary positions (DPLG and Business Trust 2007). These figures are quite low and marginal given the fact that KwaMashu has a population of approximately 120000 and INK a population of over 500000. Moreover it is the big formal businesses create considerable employment, for example Spar has created 120 formal employees (DPLG and Business Trust 2007). Therefore according to the DPLG and business Trust 2007 LED has had little impact in employment creation. Likewise findings of the study confirm the minimal impact on employment creation. It was revealed that SME's at the upper end have registered employment growth whilst those at the lower end rarely employ with most being run by the owner whilst getting occasional help from family members. It can therefore be argued that LED in KwaMashu is not achieving its objective of employment creation since very few jobs have been created. Moreover the majority of SME's (50%) are still in the incipient stage where they are unable to employ more people.

In terms of income, it is only the SME's at the upper end who have grown in terms of income and assets market. The upper end SME's only constitute a small percentage of the SME's in KwaMashu. The income of the lower end SME's has slightly changed with 46% of the SME's not registering income growth, breaking even and some even making a loss. Thus LED falls short of fully achieving its intended objective of improving income amongst SME's. Findings of the study confirmed that entrepreneurs with better skills have higher incomes. Therefore there is need for skills training to boost incomes for entrepreneurs at the lower end of the development ladder. From the above discussion it is clear that LED strategies in KwaMashu has had differential outcomes with the upper end SMEs benefited mostly from the INK ABM with the incipient SME's hardly getting their feet on the ladder. This has led to the upper end SMES scoring better in terms of assets, income and employment figures. Thus LED strategies in KwaMashu are falling short of achieving the objective of targeting all the segments of the poor to improve their situation.

### **9.3 CHANGES IN HUMAN CAPABILITIES**

Human capabilities include skills, education and good health that are needed for people to be productive (Sachs 2005). It has been observed that enhancing human capabilities enlarges people's choices and it is key to escaping poverty (World Bank 2003). The research reveals that 50% entrepreneurs at KMTTC are in need of entrepreneurship training and skills development to grow their enterprises. SME entrepreneurs (8%) in KwaMashu with better skills have better resources, capacity, are able to value add their products, have a bigger market share and explore global markets. These SME's are the mature SME's in stage one and four whilst the SME's with less capabilities remain in the same saturated local market where returns are diminishing. The low human capabilities of SME entrepreneurs are as a result of the low levels of education and literacy levels in KwaMashu where 48% of the populace is illiterate. It can be therefore argued that LED has had a marginal impact in developing human capabilities of entrepreneurs in KwaMashu. Thus there is need to invest in human capabilities for successful poverty alleviation.

## 9.4 IS LED PRO-POOR IN KWAMASHU?

Pro-poor development is when poor households increase income or consumption proportionally more than the non-poor. For pro poor LED to be realized, pro poor policies should be targeted at the poor. Firstly the anchor project of the INK AMB, the KMTC project aims at wealth generation and creating a property market. Wealth creation works for those endowed with recourses, such the SME's at the upper end of the development ladder, the established chain stores, but not the SME's at the lower who are concerned with survival, thus it can be argued that the KMTC strategy is not pro-poor since to a large extent it did not benefit the poor. Furthermore creating a property market is a 'harassment' to the SME's at the lower end, since they lack the resources to partake meaningfully in the property market. Moreover there are strategies such as the redevelopment of the Mahawini business hive and new shelter for informal traders which have been in the pipeline for over 5 years. Thus it can be argued that there is long delay in implementation of projects which undermines the objectives of LED. Perhaps the delays would also hint at the incapacity of LED mangers to implement LED projects.

Pro-poor development is when poor SME entrepreneurs increase income or consumption proportionally more than the non-poor. The LED strategies by the INK ABM led to differential outcomes where only the enterprises in stage four and three with higher income and the necessary business edge, human capabilities, networks and resources have continued to grow at the expense of the poor incipient SME's in stage one and two. It can be argued that such a scenario further perpetuates inequality since the incomes of the SME's at the lower end are hardly increasing. Thus the LED strategies are not fully achieving their objective of being pro-poor. A striking example is at KMTC where an SME at the upper end is located next to an SME at the lower end who is considering closing shop.

The fact that only a few SME's' are benefiting from the INK ABM suggest that if market forces are left alone they often bypass the poor (Meyer-Stamer 2006). Therefore there is need to make markets and LED to work for the poor wherein markets for the poor are developed by targeting them. In addition information dissemination is often "rigged" in a way that discriminates the poor SME's as claimed by some of the entrepreneurs interviewed.

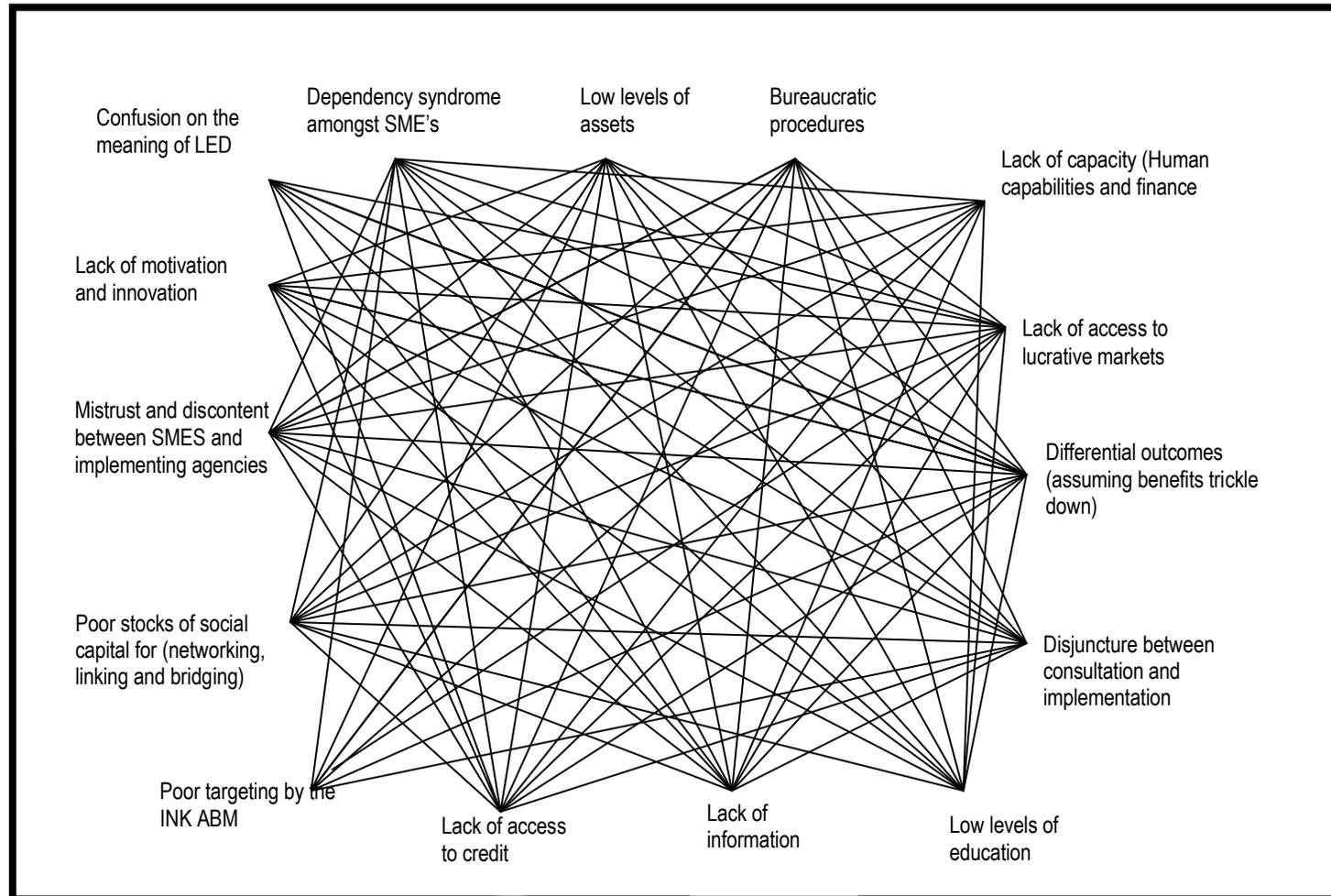
It is the SME's at the upper segment who are privileged with information. This also suggests that the way LED is implemented in KwaMashu is often distorted. Likewise Meyer-Stamer argues that LED implementation is often rigged in a way that benefits only a small group of the already well off in South Africa (Meyer-Stamer 2006). It is difficult for the poor SME's to benefit because they lack information, resources, and skills and networks to tap into LED programs as shown by the research findings. Moreover the LED programs are not specifically targeted at the poor, they expect benefits to trickle down which has led to differential outcomes. Thus there is a yawning gap to what LED strategies in KwaMashu intend to achieve to what they have achieved.

## **9.5 WHY A MARGINAL IMPACT ON POVERTY ALLEVIATION?**

The study reveals that there are many factors which have affected the impact of LED in reducing poverty in KwaMashu. These factors interact and reinforce each, other trapping the poor in poverty as illustrated in the diagram below (figure 31) which is based on the findings of the study. For example poor stock of social capital means SME's cannot network, organize themselves into a cluster and they lack information about the INK ABM program.

Likewise lack of assets is a result of lack of access to credit, low income and lack of access to lucrative markets. Lack of motivation in turn stifles innovation amongst SME's. With lack of innovation it would become difficult for SME's to grow. Likewise lack of skills also hampers innovation and motivation. However some of these factors have worked to the advantage of SME's at the upper end. For example, because these SME's have resources, assets and networks they have managed to grow their enterprises. They have managed to grow since they are innovative and motivated. As illustrated in this study the web of factors makes it difficult for the poor in KwaMashu to get a foothold on the development ladder. The web of factors point to the fact that LED strategies should not be implemented on a piecemeal basis. They should address all the factors which would ensure that becomes LED a meaningful tool in alleviating poverty.

**Figure 31: Web of Factors Affecting LED Negatively**



Authors Construct

## **9.6 RE-ENGINEERING LED TO ALLEVIATE POVERTY**

*“The key to ending poverty is to enable the poorest of the poor to get their foot on the ladder of development. The development ladder hovers ahead and the poorest of the poor are stuck beneath it” (Sachs 2005)*

A new agenda for LED to enable the poor residents and SME's in KwaMashu to get hold their foot on the ladder of development is proposed by the researcher in this section. This includes new ways and strategies for making LED pro-poor and an effective poverty alleviation tool. These new ways of thinking are brought about by the failure of LED strategies on making a significant impact on poverty alleviation. The new ways focus on re-thinking targeting of LED strategies and re-thinking conceptualisation of LED. This is based on a model cycle of LED developed by the author thereby contributes to knowledge. The model is would make LED holistic, clinical and inclusive so that the development ladder does not perpetually hover above the poor but that the poor get hold of the first step of the development ladder up to the last step.

### **9.6.1 Rethinking Targeting of LED Programs**

The assumption of the URP/ABM strategy program is that KwaMashu is a homogenous area and that the in program everyone will benefit when benefits trickle down. This assumption has been proved faulty in other area based management programs and urban renewal programs in USA and Britain (Erberts 2005). While in KwaMashu one of the major findings is that ABM's have differential outcomes. In such a scenario there are winners and losers, thus LED programs need not be structured on a spatial view only, but it should be targeted at specific groups of people with specific needs. This takes into cognisance that LED is not a one size fits all approach, but it should be geared toward specific needs of a specific group of people. For example LED strategies in KwaMashu should differentiate the needs for incipient, survivalist SME's and mature SME's. If LED strategies are prescribed as a blanket strategy, not all people will benefit but only those with resources who can leverage themselves to take advantage of LED strategies. In such a scenario inequality will continue unabated. Thus for the lower end SME's , LED strategies should be double pronged where they create cargo and safety net strategies as previously discussed in section 2.4.

Cargo nets would help the SME's climb out of poverty whilst safety nets help people not to fall back into poverty. For example offering finance would be a cargo net strategy whilst education and training would ensure that they use the finance in an appropriate way so that the SME's do not fall back into poverty. Such a strategy will ensure that the SME's will be able to save and accumulate capital. Once they accumulate enough savings SME's are likely to move on to the next stage of wealth generation when other factors are held constant. The KMTC redevelopment aims at wealth generation but the question is how the SME's can create wealth when they do not have the resources to save. In essence the strategy as it is, is 'harassment' to them as such there is need to create safety nets first and wealth creation would follow when there is sufficient accumulation of savings. Targeting LED strategies to specific groups especially the lower end SME's will also mean that it is inclusive. Once the lower end SME's progress from stage one to four or beyond other specific LED strategies can be employed which will cater for their needs at that particular stage.

### **9.6.2 Rethinking LED**

LED in South Africa has been practiced for more than a decade with the INK ABM in KwaMashu being part of that experience. LED in South Africa is expected to promote economic growth, poverty alleviation and equity wherein the previous imbalances brought about by apartheid will be readdressed (URP 2001). However experience has shown that without clear cut mechanisms of implementation there has been mixed results with few success stories. For example in the Free State province and Limpopo Province LED has had limited impact on poverty alleviation (Marias et al 2002). There is need for the municipalities, the INK ABM and the government to realize that the relentless drive of LED as an instrument for economic growth and poverty alleviation is not fully achieving its objectives. There is need to take into cognizance that LED is not a "magic bullet" to solve all developmental problems in KwaMashu and South Africa in general. There is need for a comprehensive strategy of LED with multiple strategies and other complementary strategies outside LED since it has been illustrated by this study that there are various factors which reinforce and interact with each other to trap people in poverty. Therefore comprehensive and multiple strategies which can unlock the poverty trap are desirable.

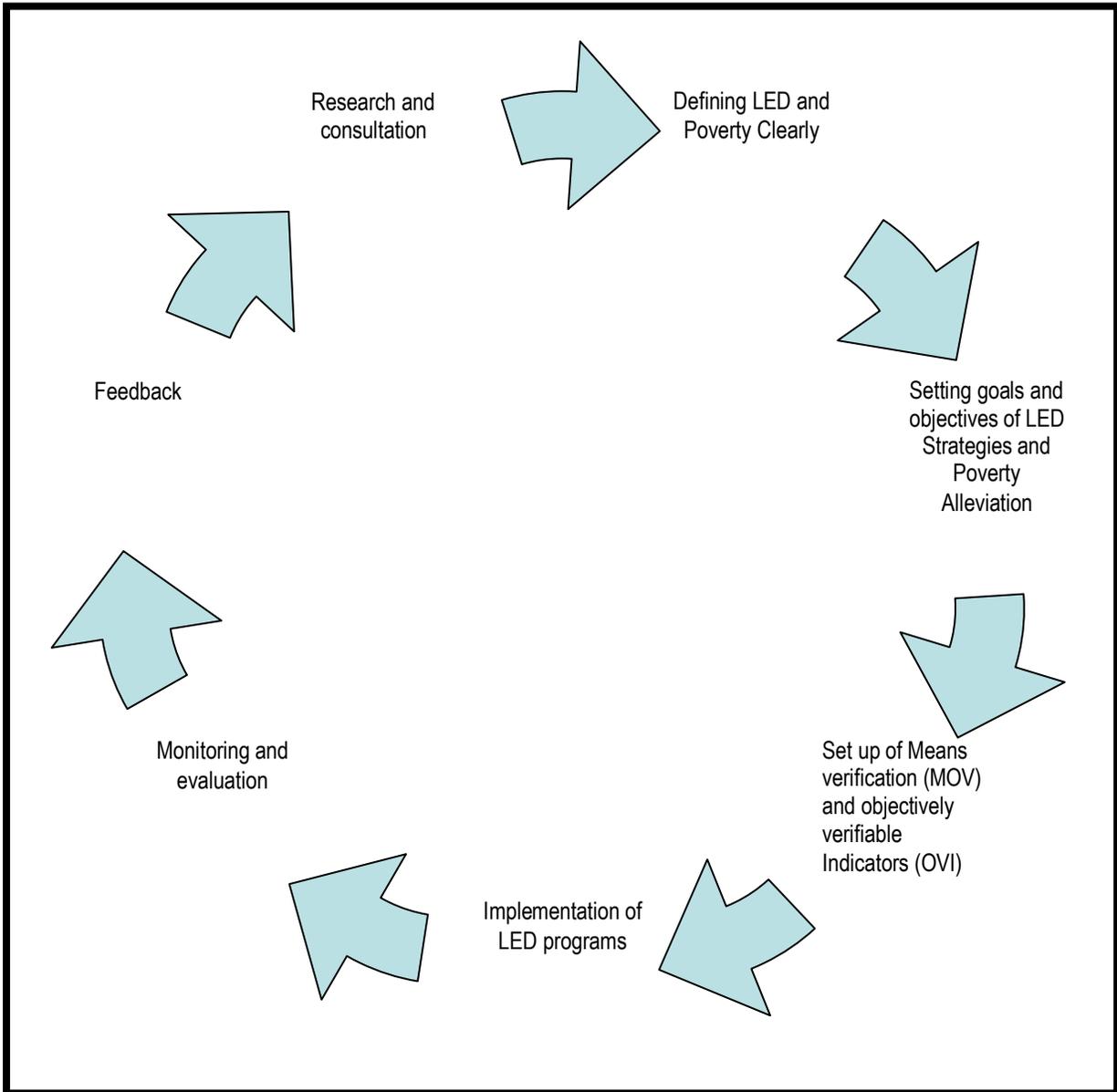
Analysis of survey results revealed that various LED implementing agencies have different views which counteract each other thereby impacting negatively on program implementation. For example the need to reconcile the planning view which is long term and the business view which is short term is a case in point. This is in tandem with Meyer-Stamer's findings that LED has not been largely successful in other countries, since it is based on the same outworn presumptions, without clear-cut grounded theories. LED has seen little success elsewhere, yet it is vigorously promoted in South Africa from the national government to local government (Meyer-Stamer 2003; Marais and Botes 2006).

LED is supposed to be initiated by the local residents (Meyer-Stammer 2003). However in KwaMashu it has a tone of being top down since government departments spearhead it and the INK ABM is a presidential lead project. However it can be argued that the INK ABM is not being fully translated into practice thus the marginal impact on poverty alleviation. LED is thus not being fully implemented in a way which alleviates poverty at local level in KwaMashu.

Moreover what is local differs with context for example Local may mean a town, residential areas such as KwaMashu, or a city. Thus it can be argued that LED should be changed to be Planning Economic Development (PED) (as suggested by the researcher) which can be at all spatial levels. PED will not be restricted to a particular spatial level since it acknowledges that an area does not exist in isolation neither can it succeed by itself; it needs support from other areas. PED will go beyond romanticizing about a particular node such as presidential nodes in the Urban Renewal Program but it would focus on creating new mechanisms for the development an area. PED would seek to create a balance (Sachs 2005) between local, national and or global action, between wealth creation and poverty alleviation, between collective and individual action of SME's depending on their particular circumstances at a given time. Given the high levels of poverty amongst SME's poverty alleviation strategies should precede with wealth creation. Given the current state of SME's where over 50% are in the incipient stage with only 8 % mature SME's.

Furthermore if the INK ABM is to succeed in implementing LED in a way that it alleviates poverty, the way LED is practiced has to be re-engineered into a new cycle as proposed by the researcher in the diagram below.

**Figure 32: MODEL LED CYCLE**



Source Authors Construct

The proposed model is discussed below.

**i. Step One : Defining LED and poverty**

In the model cycle the beginning point is defining what LED means for the local community for example KwaMashu, not a definition which comes from external sources which may not be borne out of the real needs of the local community, since they would be perceived needs. It can be elicited from consultations with the local community together with the Local Economic Development Agency (LEDA). For instance, the INK ABM office and the residents in KwaMashu. The LEDA has to take the residents contributions seriously not just viewing participation as merely procedural issues. Participation is not to create reports which will gather dust like current consultants reports, but to create practical reports with practical solutions driven by the local people which can help them out of poverty. For example plans for the redevelopment of the informal traders market and Mahawini hive at KMTC are yet to be implemented even though they were designed more than five years ago.

During the consultation process major poverty nodes are identified so that projects target them to alleviate poverty. If the local people come up with their own poverty definition and poverty nodes, programs are likely to be targeted where they are needed most. It has been observed the poor are: *".... ready to act, both individually and collectively.....they have a very realistic idea about their conditions and how to improve them not a mystical acceptance of their fate. They are also ready to govern themselves responsibly, ensuring that any help they receive is used for the benefits of the group rather than pocketed by powerful individuals. But they are poor to solve their problems in their own"* (Sachs 2005). It is therefore clear that LED has to be bottom up with the poor people being active yet at the same time recognizing that they need outside help from other stakeholders such as the government. The government does not have to play a domineering role otherwise it creates the dependency syndrome.

**ii. Step two: Setting Goals and Objectives**

The local people, together with the LEDA should come towards a consensus on the main goal of LED in an area. By making the community participate in goal setting the strategies will have more relevance to their current situation, it also creates a sense of ownership and

it helps foster motivation and innovation which maybe low for example amongst entrepreneurs in KwaMashu. It is also key in breaking the dependency syndrome which may be in a society. For instance it currently persists within the SME's and residents in KwaMashu as revealed by the study.

**iii. Step three: Setting up of Indicators**

There is need to establish a set of indicators within the LED program so that there can be a way to monitor and evaluate the program. These indicators should be verifiable and objective. For example, setting up of tangible milestones and poverty indicators, not just a mere abstract vision statement which is not testable or tangible. Such indicators may include use of the Infrastructure index as discussed in section 6.5 and setting up program milestones. Indicators are useful to ascertain whether an LED program is making progress and it is also a way of ascertaining whether the resources being used in a project are worthy. It is also a way of providing a learning experience which can be used to inform the current program or future programs. The key in setting these indicators is that it should be participatory in deriving the indicators so that everyone is accountable.

**iv. Step four: Implementation**

LED project Implementation is wherein the policy is translated into practice. For instance, building of a market or training of the local community. The LED strategies impact is assessed on the quality and progress of implementation. A key question during implementation is, is policy being translated to tangible results on the ground. Implementation is done by various stakeholders all having equal responsibility so as to create ownership and team spirit.

**v. Steps five and six: Monitoring , Evaluation and Feedback**

Monitoring and evaluation is key for any program since it provide details on why a project failed or succeeded. It has been observed that in South Africa very few LED programs are evaluated especially the impacts on poverty, thus there is very little to learn from (Marias et al 2006). For LED to be successful and for it to cease to be only a political drive, but a serious poverty alleviation tool monitoring and evaluation has to be an integral part of the

LED cycle. It is a means of identifying areas which need further improvement and areas which can be replicated elsewhere. Monitoring and evaluation reports will also be a means of providing feedback which can be used for future targeting of LED strategies, projects and programs. Moreover monitoring and evaluation should not be a preserve of technocrats and LEDA's such as the INK ABM. It should also include the community's meaningful participation, since it is their lives that are affected. Thus the community should be able to tell a story on how LED programs are affecting their livelihoods.

**vi. Step seven: Research and Consultation**

Monitoring and evaluation can also be coupled with research and consultation wherein research would ensure that trends and needs of the people are captured so that LED programs become relevant. The research component is also a means of gathering relevant data and statistics about the community which is useful in planning for LED programs. Moreover having such information is also a soft factor in attracting investors in an area since it is easier for investors to look at records rather than venturing into an area where there is little or no information at all. This data can be updated on a regular basis so that it is always remains relevant all times. Furthermore the information can be put in a database which can be easy to access. It is important to note that, the stages discussed in the cycle do not occur in isolation. This means that all the stages are interlinked and can be occurring simultaneously, for example during implementation indicators can be revisited and redefined. Thus the cycle is interactive and reinforcing.

### **9.6.3 Re-engineering LED Strategies**

From the findings of this study it is clear that LED on it is own is not a sufficient tool for poverty alleviation. There is also need to acknowledge that poverty alleviation does not require one strategy which is thought of as, a magic bullet (Sachs 2005), or miracle prescription, but realizing that poverty alleviation requires a package of strategies and investments for it to have impact. These packages may go beyond LED; they need to invest in all forms of capital which the poor lack, since each form of capital is needed to escape poverty (Sachs 2005). More so, success in

one sector depends on investments across other sectors. The investments in capital need not be undertaken through LED only but other policies and strategies as well.

The strategy of investing in all forms of capital is defined by the researcher as “clinical LED”, wherein all the causes of poverty are addressed and strategies put in place to address them. Clinical LED is borrowed from the medical field where when a doctor is treating a patient he/she considers all the possible causes of illness. Likewise clinical LED goes beyond just focusing on one area/sector and assuming that there will be trickle down effects and more recently trickle plus effects as Sachs (2005) argues. Clinical LED targets the core causes and roots of poverty. For example firstly educating and training the entrepreneurs (for instance in KwaMashu) before bridging finance would lead to better management of financial resources. Clinical LED as such focuses on investing in all forms of capital which the poor lack. The investments in capital which it targets are described below.

i. **Human Capital**

This includes key investments in the well being of human beings such as health, education, skills, literacy and good health needed for each person to be economically productive (Sachs 2005). For example the study revealed that that the SMES and the residents of KwaMashu are in need of investments in human capital particularly, education and skills development for SME’s to be able to grow and escape poverty. As such LED strategies should target investments in these areas.

ii. **Infrastructure**

This includes the provision of hard infrastructure such as electricity, provision of safe water, information and communications technology, transport networks and energy which are critical inputs into business productivity (Sachs 2005).

iii. **Social capital**

Social capital is the values and norms within a society which makes it possible for people to network and link with each other and it’s also a way of bridging. It is through networks that information is gained and it is through linking that society can engage in collective

action. Through interaction it is crucial to build trust which is key for the success for any endeavour, including poverty alleviation.

iv. **Business-capital**

Business capital refers to equipment needed to run an enterprise successfully for example an internet café requires computers. It also includes the financial resources required for any project. From the research it also emerges that lack of equipment is prohibiting the growth of SME's.

v. **Knowledge capital**

It entails the scientific and technological know-how, which raise productivity in business output and the promotion of physical and natural capital (Sachs 2005). The knowledge capital also includes doing research, monitoring and evaluation of programs so that the information is used to enhance future LED programs.

vi. **Public Institutional Capital.**

This includes reforming the current institutions managing LED programs such as municipalities and the government departments and laws that impact on the successful implementation of LED as a poverty alleviation tool.

Investing in all forms of capital acknowledges that poverty alleviation is not undertaken through one sector or strategy only, but requires investments across board so that gains in one sector are not lost in another sector (Sachs 2005). Investing in all forms of capital takes cognizance of the fact that there is no one decisive instrument that will turn the tide against poverty (ibid). There needs to be investment in all of the forms of capital listed above to escape the poverty trap where success in one area depends on investments elsewhere. In essence Clinical LED is comprehensive or holistic, where LED strategies invest in all forms of capital. Furthermore this approach acknowledges that for economic growth to occur poverty needs to be addressed first as the World Bank (2003) argues. Investing in all forms of capital also acknowledges that trickle down effects do not trickle to other sectors thus the need to invest in all forms of capital. For instance just as a doctor runs a series of tests on a patient likewise clinical LED targets all the causes of poverty so as to fully alleviate it.

#### 9.6.4 Fostering Education and Training

It has been observed that being equipped with skills and education is a key driver of economic growth as the MIT case study in (section 3.6) suggests. Moreover it is argued that there needs to be a certain minimum investment in people through education and training if business is to succeed. Furthermore it has been demonstrated that SME's with better education and skills have more income and lucrative markets since with their skills they are able to value add their products (section 8.4). The SME's without skills and education tend to trade in the same products thereby saturating the market with low potential for growth. Education and training of entrepreneurs in KwaMashu is a form of empowering the SME's in KwaMashu and it is argued that it is the basic starting point for SME's to escape poverty. This statement is echoed by Drabenstott (2005) cited by (EDA 2005) who argues that,

*“In the neediest of our regions, education has to be a crucial starting point, and how we lift the skill sets of the workforce, of private leaders, of public leaders, all of that is a critical cornerstone. And within that, we have to think seriously about how we create the seeds to plant in students' minds early in their development that entrepreneurship is a viable career choice.” pg 9*

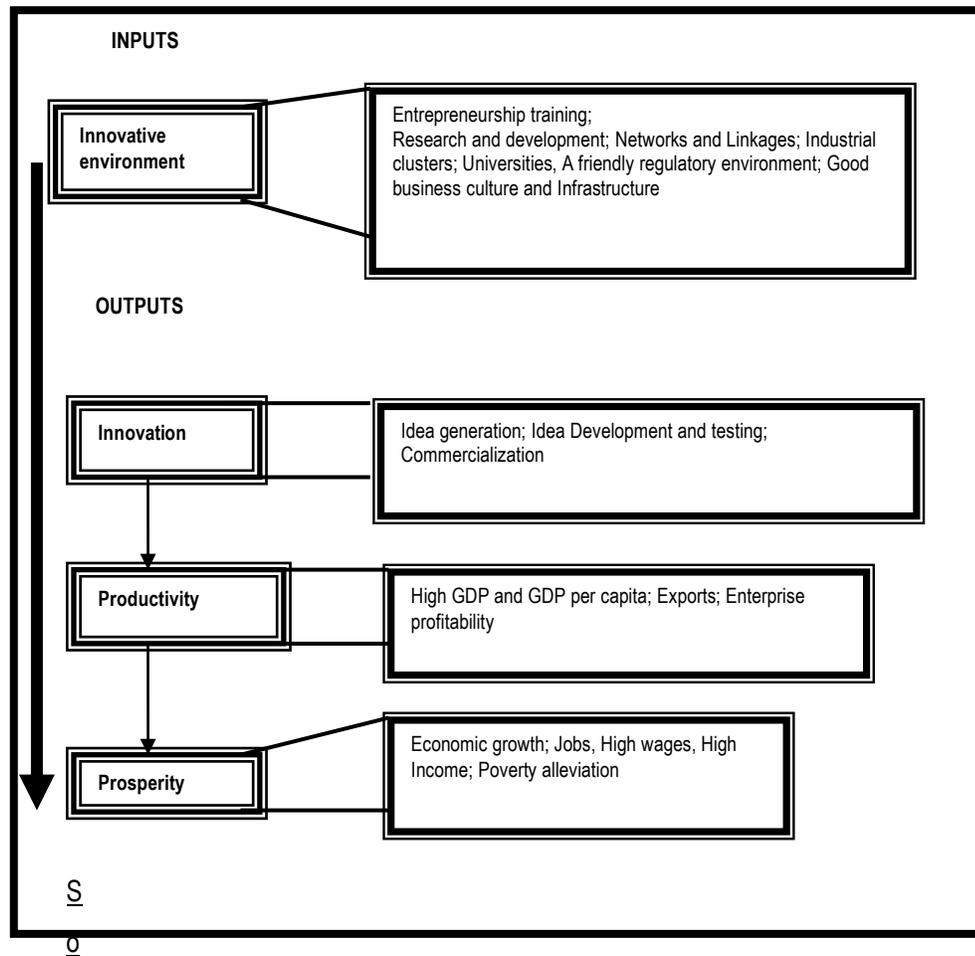
It is therefore essential to promote education and training of SME's through entrepreneurship training if SME's such as those in KwaMashu are to escape from poverty. Entrepreneurship suggested herein is much more than 'a class' on how to run business but a class on entrepreneurship, which is about enterprise management. Entrepreneurship is a way of thinking, tied to creativity, idea generation and opportunity recognition where the motto is “just in time, just for me” where invention, innovation, and diffusion are fostered (EDA 2005). Innovation is a process in which new ideas are supplied to create value for society. Innovation is; *“.....the fundamental key to economic growth ..... It used to be that we could rely on our natural resources or our ability to create commodity products, be they manufactured or not, to drive economic growth. Today we don't have a choice. We're in a global economy, which demands constant innovation by all our industries in order to succeed in this global environment. So, and fundamentally, if a firm is not innovating today, they have very little time to live in our global economy.”* (Kempner 2005 cited by EDA 2005).

Entrepreneurship training is recommended in order to encourage entrepreneurs to think out of the box, to come up with new ways of thinking and running an enterprise. It is clear from the research findings that the entrepreneurs need to be equipped with business skills to enable them to run their enterprises profitably. This form of skills is referred herein as entrepreneurial training which parallels Schumpeter's entrepreneurial skills where small businesses are equipped with skills to promote invention, innovation and diffusion of ideas (Schumpeter 1976; EDA 2005). Such training would therefore assist small enterprises to grow. This growth would be in terms of income, market share and assets within the value chain. Moreover, from a pro-poor point, it also enables entrepreneurs to transform from being survivalist enterprises to growth enterprises.

There is a difference between growth entrepreneurs (8%) and survivalist (50%) and lifestyle entrepreneurs in the case examined in KwaMashu. Growth SME's are interested in innovation, value addition in the value chain so that they prosper whilst survivalist are concerned with daily struggle, on the other hand for lifestyle entrepreneurs it is their way of life (Nadvi 1999; EDA 2005; Nadvi and Barrientos 2004). Growth SME's are thus interested in seeing the business move from stage one to stage four whilst survivalist and lifestyle SME's are not aggressive in seeing their enterprise grow. It is argued that through entrepreneurial training, INK can produce growth oriented SMES with the vigour for innovation where they can create more income within the value chain (see figure 34 diagram below). Innovation is not just about idea generation; it is also about idea commercialization (Schumpeter 1976; EDA 2005; Porter 2005).

Innovation is key in growing an enterprise providing an enabling environment which include entrepreneurship training; research and development; networks and linkages which allow for information flow. Currently in INK such a setup is lacking, for example within the value chain of arts and craft entrepreneurs. However there have been attempts by the Business Support Unit and INK ABM in entrepreneurship training and organizing various SME fairs which promote networks and linkages. The innovative environment yields outputs such as idea generation and commercialization (Porter 2005, Schumpeter 1976).

**Figure 33: Innovation Flow Chart**



Source: Adapted from Council of Competitiveness (2004)

Idea generation is not enough but commercialization is since it will yield growth in terms of income and profit (Smith 2005). Developing skills is also essential in breaking the current “*copying and paste syndrome*” where businesses operate almost in the same trade, selling same items without any variations. Such a situation floods the market, reduces the market and ultimately income, meaning one would remain poor.

From the figure 34 it is clear that innovation is key in growing an enterprise provided there is an enabling environment. This would include entrepreneurship training, research and development, networks and linkages which allow for information flow. Currently in KwaMashu such a setup is lacking within the value chain of SME’s. However there have been attempts by the Business

Support Unit and INK ABM in entrepreneurship training and holding of SME fairs which promote networks and linkages. The innovative environment yield outputs such as idea generation and commercialization (Porter 2005, Schumpeter 1976). Innovation is not just about idea generation; it is also about idea commercialization (Schumpeter 1976; EDA 2005; Porter 2005) since it is through commercialization that will yield growth in terms of income and profit (Smith 2005). It is also important to note that idea generation and commercialization need not only be undertaken by well trained SME's, however universities have a role to play where LED can be knowledge based or University led LED.

Universities, academics together with SME's have a critical role in the value chain particularly in commercialization ideas. Instead of the current motto which persists of "publish or perish", universities in South Africa can urge their academics to take another track (Kempner 2005 cited by EDA 2005). In this track they can form a start-up company or support the starting of a company to commercialize a commodity in INK with ideas that they have come up with (Smith 2005; Loague 2005). To this end the University of Kwa-Zulu Natal in Durban has setup an innovation center to address the issue of commercialization of ideas in addition to the traditional role of knowledge generation. By so doing, they will be empowering the value chain with knowledge. In Africa this is crucial since most ideas tend to be developed elsewhere thus African academics together with SME's can create a knowledge based value chain (Todaro 2000). However to promote an environment of commercializing of ideas there needs to be an enabling environment and seed capital which is lacking since it has been a low priority in developing countries(ibid).

There is vast amount of research on LED and poverty in Kwa-Zulu Natal and Durban in the form of reports which have some new ideas (LMRF 2007). The challenge therefore is turning this research into action oriented research which can be utilized to grow the economy of KwaMashu, Durban and South Africa at large. The end point should not be only creating a shopping list of findings and solutions but transforming them into applicable ideas or programs. Such research has been behind the growth of Massachusetts in USA, then why not our own 'local Massachusetts' based on local knowledge and findings?

### **9.6.5 Re-engineering SME Ancillary support**

In supporting the activities of SME's planning has a very crucial role to play. Planning normally acts as a development control tool, which at time stifles development, thus planning has to shift from being regulatory to promoting development. This can be done through relaxing planning rules and regulations which enables enterprises to operate when other factors are held constant. Planning has to take into consideration the needs of SME's. It is encouraging to note that this has been taken into cognizance in the design of new shelters for which SME's are to operate in when the structures have been completed at KMTC.

Apart from planning there needs to be other support services such as a support center catering for the SME's. It is noted to that such a center is already in the pipeline to be put in place in the redevelopment of Mahawini Business hive at KMTC. Amongst the services of the center will provide providing information to SMES, find markets for SME's, assisting in business operation, assisting in the organization of credit, and marketing KwaMashu amongst other things.

The above discussion focused on re-engineering LED in a way that promotes poverty alleviation through LED. For this to bear fruit, LED has to be targeted towards the poor themselves so that they get a foothold on the development ladder. Furthermore LED strategies should focus on investing in all forms of capital which the poor lack so that gains in one sector are not lost in another sector. Investing in all forms of capital is key in unlocking the poverty trap. Furthermore there is also need to use the re-engineered LED cycle where participation of the poor and monitoring and evaluation are integral components of the cycle. In the new cycle a better understanding of the meaning of poverty and LED will assist in the systematic implementation of LED strategies and avoiding confusion. Understanding LED and poverty would also assist in targeting of LED strategies which is an integral part of clinical LED proposed herein. In re-engineering LED, promoting invention, innovation and diffusing are essential cogs which can break the current dependency, copying and paste syndrome in KwaMashu.

## 9.7 CONCLUSION

The study sought to evaluate the impact of LED strategies employed by the INK ABM in reducing poverty in KwaMashu. The study sought to identify aspects of poverty that have been reduced in KwaMashu; assess the extent to which poverty alleviation is influenced by demographic characteristics namely age sex and income in KwaMashu; to compare levels of poverty before and after the INK ABM in KwaMashu; to identify the positive and negative impacts of the LED strategies within the INK ABM in KwaMashu; to establish the effectiveness of the structures put in place in the INK ABM project in KwaMashu in achieving the ultimate goal of poverty alleviation, and to use the results to recommend further initiatives.

LED has had marginal impact in improving assets, income, employment growth and improving of the human capabilities of entrepreneurs and residents in KwaMashu. This is as a result of a web of factors which reinforce and interact with each other thereby trapping the entrepreneurs and residents in poverty. These factors include poor targeting of LED strategies, poor conceptualisation of LED, poor stocks of social capital, lack of information, and lack of motivation and innovation amongst entrepreneurs, a dependency syndrome and copying and paste syndrome and lack of access to lucrative markets.

However LED has had a significant impact in upgrading infrastructure and improving household access to basic services in KwaMashu. There has been massive infrastructure upgrade at KMTC which include building of a new police station, refurbishing of roads and building of a new town center. Likewise the proportion of households with access in basic services such as (electricity, sanitation and refuse removal is over 70% in KwaMashu.

The study also revealed that INK URP/ABM is not fully translating policy into practice thus not fully achieving its objective of being pro-poor and alleviating poverty. This is due to the fact that the magnitude of poverty for the entrepreneurs at KMTC and residents in KwaMashu has not changed significantly for the better since the inception of the INK URP/ABM program. This point to the yawning gap to what policy intimates, and to what is actually happening. Thus there is lack of clear cut and meaningful mechanisms to implement LED. Such a situation has led to discontent between the residents and SME's with the INK ABM. This is not only peculiar to KwaMashu but South Africa

as a whole where there is tension between the authorities and the populace because of unfulfilled promises. This discontent is further exacerbated with a few only benefiting from LED programs with the majority being negated.

Demographic characteristics impact on the implementation of LED strategies as revealed by the study. SME entrepreneurs who are educated and skilled are able to take advantage of the INK ABM. Moreover there is a positive correlation between the education and skills level with level of income, profit, and market share of SME's. SME's with better skills have higher income, profit and market share in KwaMashu. Thus it is recommended to foster education and skills development. It is only the SME's who are networked who are able to benefit from the INK ABM. The lower end SME's are left out with the SME's at the upper end continuing to grow in terms of income, output, skills and market share.

Such a situation further perpetuates inequality amongst SME's at KMTC which the INK ABM is trying to address. Where inequality is perpetuated and not addressed it hampers poverty alleviation efforts (World Bank 2006). The study therefore strongly suggested that the starting point for LED strategies should be enhancing peoples capabilities especially education and training. From this, a culture of entrepreneurship and innovation can be fostered, which if financial resources and an enabling environment present, is crucial in poverty alleviation, since it has been observed that SME's can be key drivers of growth. They can lead poor enterprises and people from obscurity to prosperity (EDA 200; EU 2005). Moreover it will help SME's to evolve from stage one to stage four of the entrepreneurial stages of growth.

In trying to improve LED strategies so that they have a major impact on poverty alleviation the study recommends rethinking LED strategies to unlock the poverty trap in KwaMashu particular and South Africa in general. Targeting of LED programs should therefore be improved to ensure that strategies reach the poorest of the poor. Moreover there is need for investing in all forms of capital since poverty is multidimensional and a web of factors (such as those revealed by the KwaMashu case) trap entrepreneurs and residents in poverty. Investing in all forms of capital will ensure that gains in one sector are not lost in another sector. Such an approach is holistic and likely to enable LED strategies/programs to achieve the objective of alleviating poverty.

Since poverty is multi faceted it requires various packages to unlock the poverty trap which is endemic in most cities in the developing countries such as South Africa and local areas of concentrated poverty such KwaMashu. Moreover policy should be translated into meaningful practice so that there is a significant impact in alleviating poverty. Translating policy into practice can be improved by adopting the LED model cycle and the clinical LED concept development by the researcher. By so doing the researcher contributes to knowledge in the field of LED.

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## Appendix 1

### List of SME's interviewed at KwaMashu Town Center(categories)

| Q             | Business Activity    |
|---------------|----------------------|
| Respondant 1  | tailor               |
| Respondant 2  | clothing/ sewing     |
| Respondant 3  | cell phone repairs   |
| Respondant 4  | telephone            |
| Respondant 5  | internet café        |
| Respondant 6  | sweet shop           |
| Respondant 7  | leather work         |
| Respondant 8  | tuckshop             |
| Respondant 9  | food                 |
| Respondant 10 | food                 |
| Respondant 11 | salon                |
| Respondant 12 | Food store           |
| Respondant 13 | meat hawker          |
| Respondant 14 | salon                |
| Respondant 15 | shoe repair          |
| Respondant 16 | hawking              |
| Respondant 17 | salon                |
| Respondant 18 | electronic repairs   |
| Respondant 19 | tavern               |
| Respondant 20 | salon                |
| Respondant 21 | restraunt            |
| Respondant 22 | baby dipers          |
| Respondant 23 | electric appliances  |
| Respondant 24 | electric appliances  |
| Respondant 25 | clothing sewing      |
| Respondant 26 | cell phone repairs   |
| Respondant 27 | Phone shop           |
| Respondant 28 | internet café        |
| Respondant 29 | sweet shop           |
| Respondant 30 | leather work         |
| Respondant 31 | tickshop             |
| Respondant 32 | Cellphone repar Shop |
| Respondant 33 | food                 |
| Respondant 34 | salon                |
| Respondant 35 | Food store           |
| Respondant 36 | meat hawker          |
| Respondant 37 | Meat hawker          |
| Respondant 38 | shoe repair          |
| Respondant 39 | hawking              |
| Respondant 40 | Phone shop           |

**Questionnaire: SMME: Informal Traders**

Name:

Location:

Mode of Transport:

1. What sort of business are you in?-

Tuckshop  Tavern  Car repair  Workshop  Other, specify \_\_\_\_\_

2. When did you start operating your business?

3. What are the constraints facing your business?

4. What do you consider opportunities for your business to grow?

5. Since you started, has your business grown in terms of;

Revenue  income  or output

6. How would you classify your business, as surviving, coping or growing?

|   |                          |                        |                          |                                  |                          |
|---|--------------------------|------------------------|--------------------------|----------------------------------|--------------------------|
| Surviving(breaking even or making a loss) | <input type="checkbox"/> | Coping (making profit) | <input type="checkbox"/> | Comfortable(reinvesting profit ) | <input type="checkbox"/> |
|---|--------------------------|------------------------|--------------------------|----------------------------------|--------------------------|

7. Is the business environment you operate in friendly? Yes \_\_\_\_\_ or No \_\_\_\_\_.  
Explain your reason?

8. (a)What sort of assistance, if any, do you get from the INK ABM or eThekweni's Economic Development unit?

(b) or other stakeholders?

9. a) Do you have any employees? Yes \_\_\_ or No \_\_\_

b) If yes how many \_\_\_\_\_

c) Has the number of employees increased? Yes \_\_\_\_\_ or No \_\_\_\_\_

c) If yes by what proportion \_\_\_\_\_

10. a) Whom do you sell to; \_\_\_\_\_

b) Do you export any of your products? Yes \_\_\_\_\_ or No \_\_\_\_\_

c) If yes specify destination

11. What turnover do you make per day, \_\_\_\_\_ week \_\_\_\_\_ month \_\_\_\_\_

12. Do you own or have access to?(Tick where applicable)

| Asset     | Yes | No |
|-----------|-----|----|
| computer  |     |    |
| internet  |     |    |
| car       |     |    |
| Telephone |     |    |
| credit    |     |    |

13. What profit do you make a month?

| Profit          | Tick where applicable |
|-----------------|-----------------------|
| 0-1000          |                       |
| 1001-2500       |                       |
| 2501-5000       |                       |
| 5001-8000       |                       |
| 8001-12000      |                       |
| 12001-15000     |                       |
| 15001 and above |                       |

14. What sort of assistance would you require for your business to expand?

| Type of Assistance          | Yes | No |
|-----------------------------|-----|----|
| Finance                     |     |    |
| Entrepreneurship training   |     |    |
| Skills development(specify) |     |    |
| Other(specify)              |     |    |

Thank you for your assistance

### Household Questionnaire

Name: \_\_\_\_\_  
 Address: \_\_\_\_\_  
 Relation to Household Head: \_\_\_\_\_  
 Age: \_\_\_\_\_  
 Sex: Male/Female

1. How many members are there in your family/household?

1-3       4-7       , 8 or more

2. Who is the head of the household?

Mother  , father  , child  other (specify)

3. Are you employed, Yes  No  if no what is your source of income?

4. What is your average income per month?

| Income          | Tick where applicable |
|-----------------|-----------------------|
| 0-400           |                       |
| 401-800         |                       |
| 801-1600        |                       |
| 1601-3200       |                       |
| 3201-6400       |                       |
| 6401-12800      |                       |
| 12801 and above |                       |

5. What is the family's average income per day \_\_\_\_\_, week, \_\_\_\_\_, month \_\_\_\_\_ year \_\_\_\_\_?

6. Do you own a?

| Asset      | Tick Where Applicable |
|------------|-----------------------|
| Radio      |                       |
| Fridge     |                       |
| stove      |                       |
| television |                       |

7. What mode of transport do you use; taxi  own car;  bicycle   
 foot  motorcycle  cart  other (specify)

8. Do you have access to;

| Service        | Yes | No | Do you experience any cut or disruption in service |             |    |
|----------------|-----|----|--|-------------|----|
|                |     |    | Yes  |             | No |
|                |     |    | Poor service                                       | Non payment |    |
| electricity    |     |    |  |             |    |
| water          |     |    |  |             |    |
| sewerage       |     |    |  |             |    |
| refuse removal |     |    |  |             |    |
| telephone      |     |    |  |             |    |

9. a) Do you have any children Yes  No

b) If yes how many

c) Are they in primary,  secondary,  matric  or  
 Tertiary education

10. Are the community facilities adequate?

| Facilities | Are they adequate |    |
|------------|-------------------|----|
|            | Yes               | No |
| Education  |                   |    |
| Sports     |                   |    |
| Health     |                   |    |
| Community  |                   |    |

11. a) What are the major factors limiting development in Kwa-Mashu?

b) Or promoting development in Kwa-Mashu

12. a) What would you consider to be the good life?

b) According to your own definition are you living the good life? Yes  No

13. Since 2001 would you describe your household as;

a) Surviving ( tight budget)

b) coping (have surplus income)

c) Or comfortable?(invest your income )

14. What would you define as poverty?

15. a) According to your definition in (14) since 2001 would you consider yourself as poor?

Yes  No

b) Has your status in (a) changed for the past five years? Yes  No

c) What are the reasons for your answer in (b) ?

16. What are your food consumptions patterns per day?

| Meal           | Serving(Specify) |
|----------------|------------------|
| Breakfast      |                  |
| Lunch          |                  |
| Supper         |                  |
| Other(specify) |                  |

17. a) What type of house do you live in? Detached  Semidetached

RDP  Other (specify)

b) Is it rented or owned? Yes  No

18. Do you carry out any economic activity on your stand?

Tuck-shop  Tavern  Car repair

Workshop  Other (specify)

19. How many years have you been living in Kwa-Mashu

0-5 years  6-10  10and above

20. a) Is the INK ABM doing enough to improve the quality of life

in Kwa-Mashu? Yes  No

b) Explain your answer in (a) above

21. a) What sort of assistance if any do you get from the INK ABM to improve your livelihoods?

b) or any other stakeholders?

22. a) Are you informed about the responsibilities of the INK ABM?

Yes  No

Thank you for you participation

**Questionnaire: Line staff INK ABM**

Position:

1. What are the LED strategies in Kwa-Mashu?
2. What are the LED projects being carried out under the banner of the INK ABM in Kwa-Mashu?
3. Under the projects in (2) what are the flagship project(s)?
4. a) How do you define pro-poor LED  
 b) According to your definition in (a) are the Led strategies in Kwa-Mashu pro-poor  
 Yes  No
5. a)How do you define Led with an economic growth focus  
 b) Do the LED strategies in Kwa-Mashu have an economic growth focus?  
 Yes  No
6. How are you linked to the broader municipality departments?
7. Are you linked with other stakeholders such as;

| Stakeholder                      | Yes | No | Nature of relationship |           |                |
|----------------------------------|-----|----|------------------------|-----------|----------------|
|                                  |     |    | Financial              | technical | Other(specify) |
| NGO's                            |     |    |                        |           |                |
| Department of Trade and industry |     |    |                        |           |                |
| National Government              |     |    |                        |           |                |
| Other(specify)                   |     |    |                        |           |                |

8. a) Do you provide support to CBOs? Yes \_\_\_ or No \_\_\_\_\_  
 b) If yes what sort of assistance? Technical \_\_\_\_\_, financial \_\_\_\_\_ or Other \_\_\_\_\_  
 c) Do you [provide support to SMMEs or informal traders? Yes \_\_\_\_\_ or No \_\_\_\_\_

d) If yes what sort of assistance? Technical \_\_\_\_\_, financial \_\_\_\_\_ or  
Other \_\_\_\_\_

9. Is your assistance targeted towards;

| <b>Group</b>               | <b>Yes</b> | <b>No</b> |
|----------------------------|------------|-----------|
| Women                      |            |           |
| Women headed households    |            |           |
| Children headed households |            |           |
| The unemployed             |            |           |
| The homeless               |            |           |

10. a)What factors hinder LED projects in Kwa-Mashu or

b) Promote LED projects in Kwa-Mashu?

11. What would you consider untapped opportunities in Kwa-Mashu?

12. a)Since inception of the INK ABM what has been your success

b) or failure?

c) Explain your answer

Thank you for your participation.