

THE ROLE OF LOCAL GOVERNMENT IN MITIGATING THE IMPACT OF THE RECESSION

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ABSTRACT

The economic recession is, in public administration, recognised as an environmental condition that emanates from the external economic environment within which government institutions operate. Its impact is felt by business, government and communities. The typical impact of the recession on business holds negative implications for government, in particular municipalities and communities. Despite the existing, though limited general research on recession in public administration as a field of study, the recession's impact on communities and the reverse implications such impact has on municipalities remain unacknowledged. In South Africa, much debate, often outlining unclear and questionable strategies, about the recession is evident at the national sphere of government. Notwithstanding the increasing pace of the debate, municipalities have maintained a deafening silence, which leads one to assume that they imagine they are immune. Not a single municipality has acknowledged the impact of the recession on communities or the reverse implications such impact has for them, and therefore they have not developed strategies indicative of their readiness to circumvent it. This silence depicts municipalities not only as dependant extensions of national spheres of government, but also as closed systems that are unresponsive to environmental changes. The impact of the recession is felt in local communities where municipalities have a significant developmental role to play. The recession necessitates local government's power of influence, adaptation processes and sustenance.

The economic recession, herein referred to as *recession*, is becoming recognised as an environmental condition that emanates from the external economic environment within which public institutions operate. International evidence confirms that its impact is felt by business, government and communities. In South Africa it is not yet clear how the recession is unfolding and how far it can extend into the country's economy, in particular municipal economies. The impact on poor households and vulnerable groups is likely to require urgent attention. The World Bank predicts that the recession will trap up to 53 million more people in poverty in developing countries in 2009 alone, bringing the total of those living on less than 2 dollars a day to over 1,5 billion (Ndlovu, 2009:1). Local governments' role, in a changing political and economic climate, along with renewed interest in forging partnerships, will be critical. The global era in which boundaries between municipalities and business have become permeable means that the recession's impact on communities cannot be overlooked. This article considers local government's role in reducing the impact of the recession on communities. It counteracts existing limited public administration research on recession in general, its impact on communities and the reverse implications such impact has on municipalities. It represents, not a mere theoretical statement in the field of public administration and development, but a major input into the local economic development (LED) practice to which municipal management has a critical role to play.

ECONOMIC IMPLICATIONS

In South Africa, much debate, often outlining unclear and questionable strategies, about the recession is evident at the national sphere of government. Notwithstanding the increasing pace of the debate, municipalities have maintained a deafening silence, from which it can be assumed that they believe, mistakenly, that they are immune to it. Not a single municipality has acknowledged the impact of the recession on communities or the reverse implications such impact has on them, and therefore strategies that are illustrative of their readiness to circumvent it have not been framed. This silence depicts municipalities not only as dependent extensions of national spheres of government, but also as closed systems that are unresponsive to changes that take place in their environment. Despite the recession being both a world and a national phenomenon, its impact is felt in local communities in which municipalities have a significant developmental role to play. Business transactions and economic activities that contribute to the municipal economic base and the tax base and that generate local assets take place in local communities. People who become unemployed as a result of recession related layoffs, homeless and starving, and as a result of loss of income are forced to crime, reside in local communities and are neighbours to municipal councillors, leaders and officials who, in terms of their respective official roles, play a significant role in communities.

Despite their collective and individual abilities and responsibilities, the reactions to the severe impact of the recession on communities and the reverse implications the impact has on municipalities, they remain unresponsive spectators. This silence depicts

municipalities as not only dependent extensions of national spheres of government, but also as closed systems that are unresponsive to changes that take place in their environment. The recession's impact, among others, is masked by factors including infrastructure developments for the 2009 FIFA Confederations Cup tournament and 2010 football World Cup which have created thousands of jobs, especially in the construction sector. The recession places new and unique pressures on municipalities, to which they will soon have to respond. The discourse about the readiness of municipalities to intervene in order to mitigate the diverse impact of the recession should perhaps not be reserved for political debates that will unfold towards the 2011 local government elections, by which time millions of job losses would have made a profound impact. Among the agenda items that should receive coverage in the discourse is the strategic readiness of municipalities, and their entities, to circumvent the impact that the recession has on communities.

RECESSION AND ITS IMPACT IN COMMUNITIES

The term *recession* is an economic concept often used interchangeably to refer to depression. The difference between the two is not well understood because they are the world's or nation's connotations for which abundant theories and definitions exist. There are no universal definitions upon which economists agree. In terms of its standard newspaper definition, recession is a decline in the gross domestic product (GDP) for two or more consecutive quarters. This definition is unpopular for two main reasons. *Firstly*, the definition does not accommodate changes in other variables, such as the unemployment rate or consumer confidence. *Secondly*, by using quarterly data this definition makes it difficult to pinpoint when a recession begins or ends. In terms of this standard definition, a recession that lasts ten months may go undetected.

The National Economic Research Bureau (NERB) provides a more appropriate way to find out if a recession is taking place. In terms of its definition, the amount of business activity in the economy is determined by looking at variables such as unemployment, industrial production, real income and wholesale and retail sales. Recession, as noted by the NERB, is defined as "the time, during a business cycle, when business activity has reached its peak and starts to decline until the time when business activity bottoms out" (Moffat, s.a.; Baxter & Davis, 2003:327; Bishop, 2009:1). According to Moffat s.a, a recession lasts for a period of a year and represents a "sharp slowdown in the rate of economic growth or a modest decline in economic activity, as distinct from a slump or depression which is a severe and prolonged downturn". For the recession to occur, the real economy must decline. A recession is typically an extended period in which the economy shrinks, leading to a rise in unemployment and reduction in consumer spending and business investment (Leonhardt & Peters, 2007:1).

In South Africa, evidence of a recession was announced by the South African Reserve Bank (SARB) towards the end of May 2009. This announcement featured results from the fourth quarter of 2008, the period during which economic activity declined rapidly. According to Bisseker (2009) the GDP estimates had shown annual economic contraction of 1,8% in the fourth quarter, reduced by a decrease in domestic demand and global

recessionary conditions. Households during this period continued to bear the brunt of the recession. The household consumption expenditure (HCE) fell by 2,7% in the fourth quarter of 2008, after having contracted by 0,8% in the third quarter – the first two consecutive contractions since 1992. Manufacturing, mining, and quarrying sectors and vehicle sales were primarily responsible for the economic contraction. The housing market has also experienced some difficulties that are associated with the recession. The decline in mining sector performance is linked to falling demand for mining products as a result of the global recession. The evidence of a recession not only increases concerns about the overall growth of the economy, but has led to decisions on interest rate cuts and the condition in which SARB convenes its meetings monthly to allow it to act responsively. The recession is one of a number of threats to government's attempts to create jobs and to combat poverty.

Impact of recession in communities

Evidence has shown that the impact of the recession on communities manifests itself in real socioeconomic terms. The impact widely acknowledged by economic analysts points to major reductions in business activity and associated job losses, all of whose impact reduces the chances for individuals and households in communities to engage meaningfully in municipal economic activities. The decline in business or economic activity has obvious negative implications for, and places a significant burden on, members of communities. Job losses will result in household financial insecurity (loss of income), and therefore the inability of households to feed, clothe and educate themselves and secure decent housing, and the conditions of extreme poverty in communities become evident. Job losses will have a significant impact on the well-being of households because more assets, wealth and associated employment benefits will be lost due to the recession.

The impact of the recession on the poor and vulnerable¹ groups in communities, as estimated by the World Bank, will be severe. What makes the process of assessing the impact difficult is that, though businesses operate in a municipal area, the various impacts of the recession, for example job losses, are evenly spread and transferred to households not necessarily residing in affected municipal areas. An example of such transferred impact is mining sector job losses. In South Africa, experience has shown that the impact is felt elsewhere, in most circumstances in foreign countries such as Lesotho and other neighbours. As a result of job losses in the mining sector, for which government support is absent, migrant workers have returned home. This has negative implications for remittance on which families abroad depend for survival.

Reverse implications of the impact of recession on municipalities

The impact that recession has on members of communities will have serious implications for government, especially local municipalities. Depending on the severity of the impact of the recession on households in communities, municipalities will be confronted by serious service delivery and development implications to which they themselves will have to respond. Lower economic growth is likely to lead to government reducing public

expenditure, especially on social welfare, healthcare (Ndlovu, 2009:3) and infrastructure (Boxer, 2008:1). The decrease in consumer spending, as a result of job losses, will have an impact on emerging markets. Municipal economic output and vital export revenue provided by trade will decrease and, as a result of reduction in government spending, private banks will impose strict loan conditions which will minimise access to credit by emerging SMMEs across sectors of local economies. The implication is that this phenomenon will make it impossible for government to realise targeted growth needed for Broad Based Black Economic Empowerment (BBBEE).

These reverse implications will include, as a result of the recession's impact on business, depleting municipal economic bases, reductions in the tax base of municipalities and the withdrawal of assets that are necessary for the economic well-being of municipalities. Loss of jobs, as a result of layoffs, will result in reduced money for household survival, leading to participation in the informal economy and crime², and will strain existing government resources and strategies to attract private sector and international investment in municipalities. The rate of crime, which will differ from locality to locality, will fuel current levels of poor business confidence in municipalities. Poor business performance, whose impact will be severe on emerging Small Medium Micro Enterprises (SMMEs), will ultimately lead to closure, and thereby deplete potential service delivery partnerships, expertise and resources. Reverse implications will result in a burden in respect of which municipalities themselves are lone actors and the main source of service delivery.

Government spending on social security, resulting from job losses and deepening poverty in communities, will increase beyond capacity levels. As a result of people's inability to afford bond repayments, the growth of informal housing settlements and accompanying illegal occupation of land will have major negative implications for municipal government and especially financial resources. This will raise existing levels of tension between municipalities and communities since households will not be able to pay municipal tariffs. These conditions have an ability to influence relocation decisions of individuals in skilled labour categories to search employment elsewhere; the condition that will result in brain drains in municipalities. Furthermore, as a result of the recession, the United Kingdom's International Development Committee has warned that levels of development assistance could be affected negatively. The implication of the warning is that municipalities will struggle to obtain international financial support for developments, which will elevate the risk of countries becoming unable to meet Millennium Development Goals (MDGs) by 2015. The reverse implications of the impact of a recession on communities will affect municipalities more than any other sphere of government; hence the requirement to develop intervention strategies with which they will be able to mitigate its severe impact on communities.

ROLE OF LOCAL GOVERNMENT

The focus on local government as key in reducing the impact of recession is directly in line with international developments. Since the impact of the recession is experienced in municipalities (within cities, towns and villages), this focus is rational. Municipalities are well placed to implement (or at least co-ordinate) initiatives (Shaw, 1998:2; Malefane,

2009:3) to reduce the impact of the recession. Despite the eloquent apathy that the recession has attracted from South Africa's municipalities, municipalities, through their mandate of improving the general welfare of communities, have definite roles to play in mitigating the severe impact of the recession. This role is expressed in various pieces of legislation pertaining to local government, such as the Local Government Transition Act of 1993, Local Government: *Municipal Systems Act* 2000, as well as the *Constitution of the Republic of South Africa*, 1996 authorising municipalities to enjoy relative legislative independence. This autonomy, accompanied by the restructuring process in which municipalities are engaged, place them at a critical juncture of the development process.

Municipalities enjoy their right of existence as the statutory bodies through which local residents voice their concerns. They operate as open systems that receive inputs from immediate communities (Malefane, 2008:713), are a point of contact between individuals and government (Thornhill, 2008:492) and are channels through which people participate in the decision-making processes of government. Municipalities are held accountable for the promotion of social and economic development of their communities (Naudé, 2001:8; Atkinson, 2002:4). South African municipalities, as part of the restructuring process, have experienced massive structural transformation that broadened their scope of functioning. Despite the recognition of partnerships, municipal entities, that enable them to be broadly responsive to diversified needs, are new developments brought by their transformation. Local Economic Development Agencies (LEDAs), as municipal entities, benefit and enhance the role of municipalities in reducing the impact of the recession and the implications such impact has on municipalities.

LOCAL ECONOMIC DEVELOPMENT AGENCIES

The argument contextualised in this part is threefold. It provides an overview, discuss roles and explains the comparative advantage of LEDAs in successfully reducing the impact of recession on communities. LEDAs, as municipal entities, are established either in a district or a local municipality. In South Africa, LEDAs are a new invention to counteract the excessive dependence of municipalities on national and provincial economic development drives that are often inconsistent with the needs of local communities and often appear locally irrelevant. LEDAs anticipate intensifying the degree of economic activity in the country's rural areas, underdeveloped and previously marginalised areas (townships) where unemployment is high.

They are set to respond to socioeconomic challenges, growing concern over economic growth and development, poverty and the poor performance of municipal sector departments in economic development. Their economic development mandate is founded on the premise that traditional municipal structures cannot optimally respond to the socioeconomic challenges in local communities (cf Malefane, 2009:165). They also counteract past apartheid policies that have bequeathed a legacy of massive poverty and humiliating social and economic environments in which people live and work. LEDAs are seen as activist vehicles en route for realising the vision of a democratic and developmental local government in which municipalities fulfil their constitutional obligation (IDC, s.a.:2).

The database of LEDAs, according to the IDC's ADS department (2009:1), includes Johannesburg Development (JDA) (in the city of Johannesburg); Nkonkobe Development Agency (in the Eastern Cape); Blue Crane Development Agency (in Somerset East); Enterprise Illembe (in KwaZulu-Natal); Hibiscus Coast Development Agency (on the South Coast of KwaZulu-Natal); Mandela Bay Development Agency (in Port Elizabeth); Dr Kenneth Kaunda District Municipality Economic Agency, formerly known as the Southern District Municipality (SDM) Economic Agency (in North West); and the Northern Cape Economic Development Agency (NCEDA) (in the Northern Cape).

Role of LEDAs

LEDAs do not have clear-cut development roles in municipalities. They conduct a broad array of roles that cover social and economic concerns. A few of these roles (cf Malefane, 2008:5), include counteracting:

- the lack of business confidence and minimal opportunities for private sector investment in municipalities;
- the minimal contribution of municipal sector departments to local economic growth, their inability to effectively act at business level and in joint-ventures due to bureaucratic practices, and overregulation;
- the lack of business development support and entrepreneurial skills development;
- reduced opportunities for municipalities to engage in large-scale economic development projects, to compete locally and in a global stage;
- the lack of innovation, integration and co-ordination between economic development activities in municipalities; and
- the increasing risk of investing in poor and underdeveloped municipal areas.

LEDAs are set to restructure the distorted municipal economic base of most South African municipalities.

Significance of local economic development agencies

Various reasons justify the significance of LEDAs in successfully reducing the impact of recession. *Firstly*, this significance is justified by the scope and context within which the impact of recession manifests itself in communities and by the reverse implications that the impact has on municipalities. An observation is that LEDAs are well suited to the scope and context of the impact, the implications that the impact has for municipalities, in particular, the overview and roles described in the preceding discussion. The most important roles of LEDAs, which directly respond to the decline in business activities, are their business-level interactions to identify business development support across municipal economic sectors.

The significance of LEDAs in successfully reducing the impact of recession in communities and the reverse implications the impact has on municipalities, rests *secondly* on the comparative advantage they possess over other municipalities and spheres of

government. Despite the scope and context of the impact, the leaders of LEDAs understand their local economies. The need to understand the local economy is necessitated by diversity, the extent of the impact of the recession on communities and the reverse implications the impact has on municipalities. The impact and reverse implications, due to development scales and patterns, are unique in municipalities and cannot be generalised. An assessment of the scale of impact is necessary to inform the process in which targeted relief interventions are developed. An example of the difference in the scale of impact can easily be brought into context by analysing impact differences between rural areas, where direct impact is lower because of delicate business activities, and urban areas, South Africa's centres of business and economic activity. Despite differences in rural and urban impact, the impact might vary between urban municipalities themselves. This difference is determined by the size of business concentration, dominant economic sectors that drive local economies, and trade orientation between economic sectors and economic strengths that vary between municipal areas in South Africa. An understanding of the scale of impact of the recession on the local economy is critical for the development of an appropriate economic strategy.

The impact and reverse implications of the recession cannot be simply wished away. A major reaction that the impact necessitates is the development of targeted local economic development (LED) strategies. The leaders of LEDAs, in partnership with other local stakeholders, is better positioned to detect and analyse the negative impact on communities, reverse implications of such impact and opportunities arising from the recession and to develop an appropriate strategy. This strategy needs to identify, *inter alia*, priority sectors where the impact of the recession is severe. LEDAs are better positioned to develop LED strategies that mitigate unique local impact. The strategies will have more chances of succeeding because they will be locally adapted, influenced and sustainable.

In comparison to municipal departments and government institutions in general, whose operations are often trapped between bureaucratic structures and systems, LEDAs can operate flexibly and have more chances of succeeding in achieving the meaningful intergovernmental relations networks necessitated by the impact of the recession. These networks are not only necessary in responding decisively to the diverse impacts of the recession, but also bring along complementary partnerships, resources and expertise that are necessary during implementation, monitoring and evaluation. Despite an emphasis on the roles of LEDAs in reducing the impact and reverse implications of the recession on municipalities, the complexity of the impact and reverse implications themselves are suggestive of the mode with which interventions will be realised. With a view to increasing international practices in which networks enhance successes during implementation, LEDAs' intergovernmental relations would be ideal in facilitating appropriate interventions.

In terms of their vertical intergovernmental relations, the leaders of LEDAs would be able to source key resources and funding that is often budgeted for at national and provincial spheres of government. The decisions on key partners will be informed by the needs of local sectors, in particular those for whom interventions are required. National and provincial sector departments are structured to offer support, and often resources,

that enhance economic development activities in municipalities. Despite networks with national and provincial sector departments, numerous provincially based economic development agencies and corporations such as Invest North West, Limpopo Economic Development Corporation, Northern Cape Economic Development Agency Mpumalanga, Economic Development Agency and Free State Development Corporation are potential economic development entities that are resourceful. The primary focus of these agencies and corporations is to promote investment in their respective municipalities. They assist local businesses within provinces to diversify and to become exporters of goods and services; they improve competitiveness, and assist exporters to access new international markets.

In terms of their extragovernmental³ relations, LEDAs will be able to take advantage of skills, resources and ideas to stimulate local economies and to respond innovatively to the impact of the recession. Extragovernmental networks are recognised for bringing together autonomous legal structures that allow municipalities to make their own decisions on policies, skills for SMMEs, credit services, negotiations with local banks, fundraising to finance projects and create jobs, and finance for international partnerships and foreign investment. These relations also bring along Public Private Sector Partnerships (PPPs) which are increasingly becoming important alternatives in service delivery in South Africa. Examples of potential partners which LEDAs can collaborate with local business sector participants (e.g. mining sector companies, private farmers, managements of community property associations (CPAs) in tribal areas and financial banks). Some may include nongovernmental organisations (NGOs), community business organisations (CBOs), local entrepreneurs and government institutions/departments in all spheres of government. Extragovernmental networks are often resourceful and can yield benefits that would be ideal in reducing the impact of the recession.

Extragovernmental networks may also include banks for SMME funding; DFIs such as the National Empowerment Fund⁴ (NEF); the Small Enterprise Development Agency (SEDA) for supporting small business in South Africa; the National Empowerment Fund, the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA). Networks with these will also make available business mentorship services to guide and counsel entrepreneurs in various aspects of business development.

Contact with international networks is brought by businesses, in municipalities, that are internationally linked, and suggests that responses to the recession's impact cannot be neatly pigeonholed. These often include large conglomerations that create jobs in municipalities for which municipal or national interventions would not be sufficient. In South Africa, the mining sector is an example of this. Despite mining products being produced in South Africa, buyers are global companies, whose demands for mining products have had serious impacts on the South African producers. LEDAs can play a significant role in stimulating international demand for such products; a role through which the recession's impact and the implications such impact has for municipalities can be reduced. International networks that through history have proved to be resourceful may be sought from the International Finance Corporation⁵ (IFC) and the Development Bank of Southern Africa (DBSA)⁶. Other prominent donor agencies that have made

funding opportunities for organisations and that have entered into collaborative work with institutions that are of South African origin include the United States Aid for International Development (USAID) and the South Africa Netherlands Partnership in Development (SANPAD). These international institutions continue to play a significant development role in South African municipalities.

WHY NATIONAL INTERVENTIONS WOULD NOT BE IDEAL

The intention with this discussion is not to argue that the national interventions are worthless in all circumstances, but experience often proves them to be inconsistent and inadequate in addressing unique municipal conditions. National and provincial interventions alone would lack clear-cut benefits to targeted local beneficiaries and business in communities. The degree of intensity and severity of the impact of the recession is diverse and requires deep understanding. In particular municipalities, the impact is profound while in others it is superficial. National interventions would fail to address this difference since they would be based on statistical information that often masks municipal conditions, their diversity and the speed with which their impact changes. Municipalities have critical leading roles which are justified by the intergovernmental relations framework in reducing the degree of intensity of impact on communities. National and provincial interventions can play critical roles if they exist as support structures for resource allocation, but not as determinants of or decisive factors for the nature and size of intervention. There are conditions in which direct national interventions would be necessary and perhaps these will depend largely on the nature and severity of the impact and the size, nature and level of interaction of the businesses concerned. Otherwise, there are those small businesses whose development impact is high in the municipal areas in which they operate.

CONCLUSION

The purpose of this article was to argue local government's role in reducing the impact of the recession on communities. The need for the argument is placed into context by the silence that municipalities have kept, despite the announcement of the existence of a recession. The impact of the recession is experienced in communities, and has direct reverse implications for municipalities which cannot be overlooked. Local government bodies, in particular LEDAs, have a significant role to play in reducing the impact and reverse implications such impact has on municipalities. The significance of LEDAs in being successful in reducing the impact and reverse implications of the recession is justified by the scope and context within which the impact and reverse implications manifest themselves. LEDAs' comparative locational advantage, expert knowledge and understanding of local economies, ability to develop targeted LED strategies and their likeliness to succeed in achieving meaningful intergovernmental networks all position them accurately to respond positively to the impact of the recession and the implications such impact has on municipalities. Through these roles, municipalities will be able to concurrently take advantage of the opportunity to restructure their local economic

bases. National and provincial interventions, as experience suggests, would lack clear-cut boundaries to effectively deal with the impact and reverse implications such impact has over municipalities. Municipalities can provide critical leadership in decisions on resource allocation to match priorities of local stakeholders and business. The leaders of LEDAs have intimate knowledge of local resources, variations in conditions, standards, affordability, needs and community factors that provide them with insights and capacity for making sound and timely judgments than national and provincial sector leadership.

NOTES

- 1 Women, disabled, youth and blacks in general.
- 2 In South Africa and most countries there is a direct link between poverty and criminal activities such as illegal electricity connections that are often a result of the inability of households to afford payment; prostitution by young girls; robbery and theft of goods in general.
- 3 Networks/collaborations with external institutions other than government institutions.
- 4 NEF is a catalyst of broad-based black economic empowerment in South Africa. The fund enables, develops, promotes and implements innovative investment and transformation solutions to advance sustainable black economic participation.
- 5 Loan or grant funder. IFC has a municipal grant fund initiative that provides financing and credit enhancement to subnational public sector entities for development purposes and enhances municipal capacity and creditworthiness without central government guarantees.
- 6 A leading development finance institution (DFI) in Africa south of the Sahara, playing the triple roles of financier, advisor and partner. DBSA maximises its contribution to sustainable development in the region by mobilising financial, knowledge and human resources to support governments and other development role-players in improving the quality of life of the people through the funding of infrastructure projects; reduction of poverty and inequality; and promotion of broad-based economic growth and regional economic integration.

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