

# The Effects of Household Industries on Local Economic Development in South Africa

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**Abstract:** The effects and role of household industries and skills development in alleviating poverty and leading to local economic growth remain an area of concern. Skills development, as one of the pillars of economic growth, has remained an unexplored area. The household industries driven by skills development play a major role in local economic development. The literature shows that most of the training that entrants receive stems from various institutions of learning, and that basic education is the first major vehicle for accessing knowledge and skills. The paper found that household industries and informal skills development create many job opportunities and equip locals with the skills that enable them to perform at their places of work. More importantly, their contribution to the national economy is positive and undebatable. Thus, the paper recommends that there is need for the government to strengthen the skills development policies in the household industries. This requires from government to establish coherent policies that enable a conducive environment for household industries. It also necessitates both scholars and policymakers to design skills development strategies for the diverse household industries in South Africa. The paper adopted a qualitative research approach that includes a literature review of the existing sources.

**Keywords:** Household industries, Human financial growth, Local economic development, skills development

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## 1. Introduction

The aim of the paper is to investigate the effects of household industries on local economic development and to explain how skills development is a key force driving the success of household industries in the country. In other words, the paper seeks to explore the effects and role of household industries and skills development in poverty alleviation in local economic development in South Africa. An Indian District Database (2000, <http://vanneman.umd.edu/districts/codebook/defhind.html>.) defines the term 'household industry' as an "industry conducted by the head of the household himself/herself and/or by the members of the household at home or within the village in rural areas". This industry, that is not run on the scale of a registered factory or firm, is engaged in producing, processing, servicing, repairing or making, and selling goods. This means that skills development as a pillar of economic development plays a vital role. The question this paper seeks to answer is: what role does household industries development play in local economic growth, ultimately, to alleviate poverty? To achieve the aim and to answer the question, this paper is structured into four main sections. The first section explains the background to household industries and defines the concepts of local economic development and

skills development. The second section explains the relationship between skills development and household industries in the process of alleviating poverty. This section also explains the role of building a skilled workforce in the informal sector that would drive economic growth. The third section explains the effects of household industries and informal skills development in local economic development. Furthermore, this section, discusses the need to develop a skilled workforce in the informal sector and its role in poverty alleviation. The last section consists of concluding remarks and some practical recommendations for policymakers and future studies in the field.

## 2. Historical Background to Household Industries

The importance of household industries as a crucial element of local economic development was recognised in the early 1970s by the International Labour Organisation (ILO) and the World Employment Programme (Bangasser, 2000). According to Saha (1989:120), a household industry is defined "as an industry that is operated by the head of the household, or by other members of the household at home, or within a designated area in a village, community or town". According to Morrisson

(1995:7), "the informal sector is characterised by legal informality, meaning that informal traders do not operate under the legal framework of business regulations, hence, they do not contribute to the country's revenue in terms of taxation, and they bypass safety and labour laws".

The incidences of the informal sector were first identified in Ghana, and thereafter in Kenya (Hart, 1973). The informal business sector has spread to most African countries. It has grown globally, and it is found in both developing and industrialised economies (Organisation for Economic Co-operation and Development [OECD], 2009). Activities in the informal sector are categorised into five groups, namely: "(i) street selling; (ii) repair and other personal services; (iii) crafts and other manufacturing; (iv) construction work, and (v) informal means of transport" (Amin, 1987:612).

Informal survivalist businesses can transform the lives of many people from living in poverty to having access to economic opportunities. However, access to skills is essential in improving the structure of the informal sector (Todaro & Smith, 2015). As such, the formation of micro or home industries is the vehicle that may interrupt the cycle of poverty. It is a way to a decent livelihood, as it provides employment to adults and youth with low or limited education (Tripath & Singh, 2017). Home industries can meet the necessities of the population at a low cost. People who are involved in household industries recognise an opportunity and take the risks necessary to pursue it (Statistics South Africa, 2015).

Morris and Pitt (1995) indicate that businesses in the informal sector operate on a small scale and, they have low productivity owing to their labour-intensive nature and a limited skill pool. Furthermore, the informal sector uses limited technology and has little or no access to financial capital (Todaro & Smith, 2015).

Employment in the informal sector is characterised by the absence of social protection for the workers, for example, there are or no limited, written contracts, medical benefits and pension contributions (Rogan & Skinner, 2017). The ILO (1989) reveals that the slow or stagnant growth of work opportunities in the formal sector, coupled with a lack of skills in the large number of people who are economically active, can lead to the growth of the informal sector.

Lund and Skinner (2003) observed that the largest number of informal workers in the informal sector is found in the retail and wholesale trade. Furthermore, Lund and Skinner (2003) noticed that a large proportion of informal workers are also found in the construction, manufacturing and services industries. The largest component of the informal sector found in trade activities, including street vending and ambulant vendors, constitute about 70% of employment in Africa (Haan, 2006). Generally, people involved in this sector have low levels of formal education (Todaro & Smith, 2015).

Statistics South Africa (2015) has, however, indicated that the educational levels in the informal sector in South Africa have changed over time. The data shows that informal sector workers are gradually becoming better educated. For example, figures obtained in the second quarter of 2008 showed that the proportion of informal workers with matric increased from 19.5% to 25.3%. Although the number of informal workers with little or no education declined from 7.7% to 4.3% in 2014, there is a cohort of informal workers who continue to have little or no education. This is reflected by 12% of informal workers who had some primary schooling, and those who did not complete this level (Statistics South Africa, 2015). The level of education of the workers in the informal sector plays an important role in the identification of the training and skills development programme needed.

### **3. Local Economic Development Defined**

Nel (2001:1005) defines "local economic development as an undertaking that brings together the local government and the community-based organisations with the purpose of improving business activities and employment". From this definition, one can see that the government has a big role to play. Equally, the role of the government is captured in the definition of Scheepers and Monchusi (2002) that local economic government is a plan governed through local municipalities in line with their established set of principles governing the state to strengthen social and economic development. The ILO (2006) states that local economies should seek methods and solutions to ameliorate and support local free enterprise.

The challenges are to find ways to maximise local resources and local knowledge to benefit all the citizens within a specific geographical area (Meyer,

2014). Trousdale (2005) sees local economic development as referring to a participatory process that involves local people, from all sectors within a specific area, working together to activate and stimulate local economic activities, with the aim of ensuring a resilient and sustainable local economy. According to Bartik (2003), local economic development must enhance the local economy's capacity to create wealth for the residents. Meyer-Stamer (2008), similarly states that local economic development is the power of a certain area to create and increase income and to enhance the local standard of life for its residents. However, as is the focus of the paper, this increased income and wealth cannot be achieved without effort from the government by supporting skills development as a way of strengthening the role of household industries.

This means that for local economic development to remedy market failures, such as removing barriers to market entry for small businesses and to improve the availability of information, it must derive its energy and driving force from household industries. Having household industries driven by skills development would create a conducive environment for business growth (Meyer-Stamer, 2003).

The last definition the paper considers is that of Swinburn, Goga, and Murphy (2006) that argues that local economic development is a process that brings business, the general public and organisations independent of the government together to improve the living standards of the local residents via economic development. One can therefore, agree with Meyer that local economic development is the "total of all economic activities by all relevant stakeholders within a specific defined geographical region, working together in partnership to create economic development, and ultimately, improvement in the quality of life for all residents in the area" (Meyer, 2014:625). This requires platforms for vigorous and comprehensive local economies that employ community-based opportunities to tackle local needs. It must also be concerned with offering skills development to the community and empowering it to enable members of the community to contribute to development goals, such as good health, and poverty reduction.

#### 4. Development Defined

Hart (2012) opines that skill development is the process of empowering individuals and developing

communities. Masipa and Jideani (2014) appreciate the significance of skills development in equipping economically vulnerable and socially excluded individuals, by offering them opportunities to access skills that are in demand in the economy to ameliorate employment, and increase productivity, income and standard of living. In support, Swanepoel, Erasmus and Schenk (2012) define skills development as the process wherein an individual participates in various activities given at work with the purpose of learning, applying and creating knowledge. In contrast, approximately 80% of employees in the formal sector who have acquired high levels of education receive additional and on-going training in the labour market (Adams, De Silva & Razmara, 2013). This leads to the next section that explains the existing relationship between skills development and household industries.

#### 5. Skills Development and Household Industries' Nexus

Skills development may be understood as one of the crucial pillars of economic growth that enhances worker productivity and improved earnings. Furthermore, it is likely to lead to the transformation of households by enabling them to make well-informed choices and improvements in the management of activities in the household (World Bank, 2013). Skilling is seen as "a combination of the necessary aptitude, knowledge, right attitude and the appropriate competence for the job" (Wheebox, 2017:13). This means that a strong and productive household industry is driven by skills development. Skills training in the informal sector is significant for the following reasons:

- Skills training enhances productivity, increases earnings, improves health, and eventually leads to a reduction in the poverty levels of these workers and their families (Fluitman, 2002).
- On-the-job skills training facilitates the development of social capital and enterprise networks (Assad, 1993).
- Skills training is likely to lead to the acquisition of the business skills and experience required to survive as an independent entrepreneur (Fluitman, 1994).

The development of household industries should be in accordance with and be relevant to the demands

of the 21<sup>st</sup> century. This can be achieved by the government providing skills development to its citizens to equip them with the current knowledge and information that will allow them to become the drivers of economies in their local settings. Hence, this requires relevant training that impacts businesses in a positive way, and that can manage the current globalisation forces and burdens such as those caused by the Corona Virus Disease (Covid-19). For example, household industries should have a basic knowledge of apps (software applications for mobile devices or computers) as well as strong and uninterrupted internet connections subsidised by the government. This therefore would have the potential to enable household industries to grow their businesses. This leads to the next section that explains the role of such a household industry in local economic development.

## **6. Effects on Local Economic Development**

The informal sector has the advantage of being labour intensive. Industrialisation means that more employment opportunities can be created in this sector (Amin, 1987). Household industries offer poor families an opportunity to participate actively in the economy and generate income. It presents these possibilities to women, children, and homeless people. In addition, the informal sector creates opportunities for unskilled and semi-skilled workers, the supply of which is rising at relative and absolute terms. This is important because the opportunities for unskilled and semi-skilled individuals in the formal sector are decreasing due to the increasing demand for a skilled labour force. The promotion of the informal sector ensures the increased benefit of the development of the poor (Todaro & Smith, 2015).

The status of employment in informal sector employment reveals that more than 2.6 million workers are generating an income for their families in this sector (Statistics South Africa, 2015). There are estimated to be: "(i) just under 1.5 million unregistered owner operators; (ii) about 1.1 million owner operators work for their own account and do not have employees; and (iii) approximately 0.3 million are employers" (Rogan & Skinner, 2017:8). The category of self-employed workers, working for their own account and unpaid family workers forms a large proportion of informal survivalist businesses. Traditionally, more women than

men were own-account, active participants in the informal sector. However, this pattern gradually started changing, as there has been an increase in the number of women who were becoming employers in the informal sector (Rogan & Skinner, 2017).

## **7. Developing a Skilled Workforce in the Informal Sector**

Building a skilled workforce in the household is inevitable in the process of enabling locals to achieve sustainable development that can lead to poverty eradication in our society. According Adams (2008), work-related skills are acquired through various settings, for example, classrooms, workshops, governmental institutions of training, non-profit institutions, and from employers that provide classroom and on-the-job training. Training is required for different reasons, such as the preparation for new technology, to qualify for employment and to uplift skills in general. In support of Adams (2008), Palmer (2007) indicates that skills are attained in three different environments, namely, the formal education environment, the informal enterprise-based training environment, and through the formal enterprise-based training environment. Informal enterprise-based training "is intricately associated with the nature of the informal enterprise, together with challenges that are likely to affect that type of enterprise" (Palmer, 2007:74). This type of training is influenced by the policies associated with the informal sector and with the government's related skills and strategies (Palmer, 2005).

The cognitive and non-cognitive development skills fundamental to both primary and secondary education form the basis for technical skills' attainment. This prepares individuals for employment through the possession of secondary and post-secondary education (Adams *et al.*, 2013). However, further skills development is essential for the informal sector to grow, for example, workers in the informal sector need to be equipped with managerial, entrepreneurial and other soft skills (Sitharam & Hoque, 2016). The development of trade-focused skills and knowledge is a key tool for better working conditions, improved productivity and the promotion of decent work in the formal economy (Liimatainen, 2002) Training provided in the informal sector can enhance the productivity of the poor, provided it is used to complement the broader strategies to create income.



To realise this aim, the South African government introduced several laws, namely, the Skills Development Act (SDA) No 37 of 2008 which has different structures that fall under it. The Skills Development Act enabled the government to create the National Skills Authority (NSA), National Skills Fund (NSF), the Skills Development levy-grant scheme and the Sector Education and Training Authorities (SETAs), Labour Centres and the Skills Development Planning Unit. For the SDA to work and accomplish its desired aims, a structure comprises the NSA was put into place. The NSA is a substructure that proffers advice on the set of rules to adhere to in the administration of the National Skills Development Strategy (NSDS) and on the National Skills Development Policy (NSDP). Furthermore, it offers direction on the allotment of grants from the NSF, and on any regulations to be developed. The NSA works closely with the NSDS and the SETAs on the NSDP. These structures inform the Minister of Labour on the improvement and difficulties faced regarding the execution of the NSDS (Erasmus, Leodolff, Mda & Nel, 2013).

The NSA advises the Minister of Labour on the NSDP and its plan of action, formulates recommendations for its execution, and allocates grants from the NSF. The NSA and the SETAs work together on the proposed programmes. The SETAs are the systems in charge of skills development. They were established by the state with the goal of expanding the magnitude of investment in education and training in the labour force. There are 21 SETAs in South Africa and their function is to ensure that the sectors are equipped with adequate industry specific skills in accordance with the aims of the NSDS. Moreover, SETAs help to bring about growth in the development of intermediate and high skill programmes among the employed and unemployed. These initiatives comprise internships, learnerships, and bursaries (DHET, 2013).

Skills programmes are short courses established on standards which can be achieved and accredited within 12 months. Internships, learnerships and bursaries are in accordance with qualification-based programmes that require 12 months or more to complete. Furthermore, the SETAs assess and monitor whether the Quality Council for Trades and Occupations' (QTCO) accredited providers can implement the relevant curriculum. SETAs apply for accreditation, liaise with the NSA and report to the Director-General of Labour. The number of

employed and unemployed persons who attended the SETAs' learning programmes and courses grew from 116 000 in 2010 to 176 000 in 2014 (DHET, 2013).

The government established Adult Education Training (AET) centres for individuals who wish to finish Grade 12 and obtain other basic skills (namely, literacy and numeracy). The AET centres play a significant role in the development of various skills, such as modern technology mainly computer training (DHET, 2015). Improved levels of literacy boost the person's ability to develop other skills, find employment, enhance his/her standard of living, and be able to take up opportunities to have a purposeful life in society. The high-speed reforms in technology require people to be pliable, inventive, resourceful, and able to use acquired knowledge and skills in different circumstances. Hence, technology innovations render foundational skills essential (ILO, 2008).

Moving forward, one can see that numeracy-related skills are essential in the current labour market involvement. Furthermore, a 2009 OECD report states that numeracy skills are fundamental for post-secondary education in many fields, for example Technology, Science and Engineering (OECD, 2009). The report further states that foundational skills are a necessary condition for the development of every other type of skill (OECD, 2009). This means that literacy skills empower the worker with the possibility to participate meaningfully in the workplace. This is supported by Prinsloo's argument that the ability to read and write gives the worker the confidence to carry out the instructions comprehensively, and to ease their daily tasks (Prinsloo, 1999).

The government established the Non-Formal Adult Education and Training (NFET) through the Adult Education and Training (AET) Act 25 of 2010 (RSA, 2010). The primary purpose is to provide adult learners with the opportunities to access skills acquisition and other economic opportunities in society (RSA, 2010). The NFET works together with various departments of the government, private institutions and other stakeholders to develop an empowering and nurturing space for the use of skills gained at these centres in the labour market (RSA, 2010). However, the training provided in the adult-based education centres suffers from a top-down management approach. The curriculum is implemented by the national and provincial department of education,

with little regard for the needs of the informal sector in the communities (Mayombe & Lombard, 2015).

According to a study by Liimatainen (2002), the skills training provided in public institutions does not meet the needs of household industries, as it is theoretical and geared toward formal jobs in the wage sector (Liimatainen, 2002). Adams (2008) indicates that the skills training provided by the public sector is not easily accessible for the illiterate as it is more geared towards the literate population. The courses offered are standardised and lack the flexibility to cater for the multi-skilling needs of the highly diverse household industries. Moreover, public institutions of training are unable to adjust to the changing demand for the skills required by household industries. Furthermore, the focus of the public technical and vocational education programmes is mainly on developing full-time students for the formal labour market. However, Non-Government Organisations (NGOs) can offer the training that is linked to the needs and demands of the informal sector. The NGOs use training manuals that are responsive, and the training offered is linked with other business services such as finance (Adams, 2008).

## 8. Conclusion and Recommendations

Household industries and the role and effect of skills development on poverty alleviation and local economic development are undebatable. The paper discussed that their contributions lead to poverty eradication and increase sustainable human and financial capital flows. The paper presented that the household industry must be informed by skills development to set a platform that enables the creation of new jobs and the development of human capacity. There is, therefore, a need for local institutions and national policymakers to strengthen the household industries and invest in skills development. This will help align the local human and natural resources of the community to match both the global and regional markets. It will also enable citizens in their geographical areas to strive to create new jobs that fit both the local people and the place.

Moreover, it will make the local economic development a pro-poor and pro-growth process; hence, it will address the issues related to poverty in the society. The fact that it is easy to start your own home industry makes it a viable mode of self-employment

for many people who have given up searching for employment in the formal sector. The face of the informal sector is changing rapidly in South Africa. The level of education, particularly of new entrants, is improving. One can see that most of the training that the entrants have is from various institutions of higher learning. There is a need therefore for policymakers to strengthen the skills development policies emanating from the government to adequately address their failure so that skills development through training becomes a norm in our society.

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